JANCIAI TIMES

MONDAY MARCH 1 1999

World Business Newspaper http://www.FT.com



Lucy Kellaway The bogus shortage of top managers Page 10



ing 60 per cent of ballots cast -

left most foreign observers satis-

Chief Falae said in his home

town of Akure: "From what I

have heard so far, the election

has been a farce. I said if General

Obasanjo won a free and fair election I would congratulate

him, but clearly this was not a

free and fair election." Reports

from Akure, however, suggested

the mood was more of resigna-

General Obasanjo, 61, was

Nigeria's military leader from

1976 to 1979. He presided over the

election of the last civilian gov-

ernment, which was overthrown

after four years. He inherits a

country in deep economic crisis

tasks will be to resolve the con-

flict in the oil-producing south,

where militant local inhabitants

have forced a big cut in Nigeria's

production of 2m barrels of oil

Among his most challenging

and torn by regional divisions.

tion than defiance.

fied it was a fair outcome.

Asteroids and internauts The internet revives amateur astronomy Science, Page 12



François Roussely An archetypal chairman for Electricité de France Profile, Page 10

Special reports FT Auto; Mastering Information Management Separate sections

Mastering Information Management

The FT's 12-part series on the I in IT continues today. Part Five: new

organisational forms Separate section

WORLD NEWS

German unions win 3.1% public sector pay deal

Trade unions representing more than 3m German public sector workers have won a pay increase of 3.1 per cent, far in excess of the annual inflation rate of 0.2 per cent and more than the govemment had envisaged in its draft 1999 budget. The pay deal, which will take effect in April and run for 15 months, was agreed on Saturday, less than two weeks after the engineering workers' union IG Metall, the biggest in Germany, won a wage increase worth roughly 4 per cent a year. Page 18

israei attacks Kizbollah targets israel carried out air strikes on Hizboilah targets north of Israel's south Lebanon occupation zone after guerillas killed three Israell soldiers. Brigadier-General Erez Gerstein, commander of the Israeli Army liaison unit to Lebanon, was among the victims. International, Page 3

Climton debt plan attacked US President Bill Clinton's proposal to provide well-behaved emerging market countries with credit lines to ward off financial crises is running into opposition on the International Monetary Fund's executive board. International, Page 3; Personal View,

India raises direct taxes India has raised direct taxes for. the first time in a decade in a budget flagged by finance minister Yashwant Sinha as launching a "medium-term strategy" to restore the country's "fiscal health". Asia-Pacific, Page 8

Ethiopia declares 'victory' The Ethiopian government has declared "total victory" in its border war with Eritrea after recapturing the contested Badme region, although Eritrea said fighting was continuing. Earlier Eritrea said it accepted a peace plan endorsed by Ethiopia.

Greens keen to boost EU role Green parties signalled their determination to play a bigger role in setting the European Union's economic and social agenda by agreeing a common programme to fight the June elections to the European parliament. Europe, Page 2

Role for UN sought in East Timor Portugal and Australia want a United Nations presence in East Timor to help ease tensions as the territory moves towards autonomy or independence from Indonesia. But Australia says an armed peacekeeping force is not required. Asia-Pacific, Page 6

Zambia tightens security Zambia has deployed police and troops in the capital Lusaka after six bombs exploded, killing one security guard.

Anwar assault admitted Malaysia's former police chief Abdul Rahim Noor has admitted beating the sacked deputy prime minister Anwar Ibrahim during detention. Asia-Pacific, Page 8

cies vs euro (retrased Jan 1 1999=100)

Progress of the euro

XXXXX

BUSINESS NEWS

German energy group threatens to transfer business abroad

RWE, German energy and industrial group, has threatened to transfer some of its business operations abroad in protest at the centre-left government's planned tax reforms. Page 19

The world's leading 10 investment banks have almost doubled their fee-based and advisory business in the global capital markets, says a report. They now have 77 per cent of the market. Page 19

Singapore has opted for caution in its Budget, providing only mild stimulation for the economy while focusing on improving long-term competitiveness, Page 6

Offvetti is expected this week to seek new aliles to support its €53bn hostile bid for Telecom Italia. The push follows its clearance for a revemped takeover offer from Consob, the Italian stock market regulator. Page 19

South African Breweries, the world's fourth largest brewing group, starts conditional share dealings on the London Stock Exchange today. Page 19; Lex, Page 18

Pearson, publisher of the Financial Times, and Gruner + Jahr, German publishing group controlled by Bertelsmann, will today detail plans to launch a new German business newspaper, Page:21

London and Frankfurt stock exchanges have begun consultations with investors, brokers and listed companies about harmonising hours as part of a plan to for Europe's top 300 companies.

Putting on brave face, Page 23 Nokia, mobile telecoms group, plans to increase its workforce by up to 25 per cent this year. Page 22

Page 18; Comment, Page 20;

A record number of fund managers launched cross-border joint ventures last year despite evidence that more than half fail within three years, according to a new report. Page 23

Queci comes under attack this week when LVMH, French luxury goods group, starts legal proceedings against the board of the Italian fashion house in the Amsterdam Court of Appeal. Page 21

Volvo of Sweden has stepped up plans to expand in commercial vehicles with a twin-track strategy involving Sweden's Scania and Navistar, US truck and

engine group.Page 21 Henderson investors. UK-based fund management company, has agreed to buy the real estate portfolio of US mutual life insurer Phoenix Home Life. Page 23

IT international Theatres, Israel's largest cinema group, is set to become the nation's first company to list its shares on Easdaq the pan-European stock market for growth companies. Page 23

Euro exchange rates

Denish krone

1,0878

130.248

9,9148

7,4345

Obasanjo wins Nigerian poll Former military ruler succeeds in election seen by observers as fair By William Wallis in Lagos Olusegun Obasanjo, Nigeria's former military ruler, swept back to power yesterday as the state's first elected civilian leader in Although the outcome of Saturday's presidential election was denounced by his only rival, Olu Falae, General Obasanjo's victory - with a margin of at least 6.5 million votes and command-

gurated until May 29, one early said: "There were some dispari- eral Obasanjo did well in the decision is critical - whether to endorse a recent IMF agreement which is an essential pre-condition to rescheduling Nigeria's As expected, General Obasanjo \$29bn external debt and winning urgently needed loans.

Observers had expressed serious concern over ballot rigging. But most concluded that both sides were to blame and said it had not significantly affected the per day in their campaign for a outcome. Jimmy Carter, the former US president who jointly includes the commercial and

Although he will not be inau-leads an American delegation, industrial capital of Lagos. Genties noted by ... my wife and I and also by members of our delegation."

> fared badly in the ethnic Yoruba region of south-west Nigeria. Although both men are Yorubas, General Obasanjo is widely resented by his own people. Chief Falae's strong showing could strengthen their calls for the autonomy of a region which

north, which has been the dominant force in Nigerian politics since independence in 1960. The turnout was higher than 50 per cent of an estimated 40m voters.

The presidential poll was the last in a series of elections, part of a phased handover to civilians initiated by the military head of state, General Abdulsalami Abubakar.

Business rejects tax harmony calls

By Kevin Brown and Jim Kelly

fairer share of revenues.

Europe's business community is overwhelmingly opposed to German and French calls for an end to the national veto on tax issues and harmonisation of corporate an FT survey of business organi-

sations. The survey suggests that there would be strong business opposition to any attempt to pursue the suggestion, put forward separately by Oskar Lafontaine, the German finance minister, and Dominique Strauss-Kahn, his French counterpart. Mouvement

isations in 14 EU countries to ing in the council of ministers.

director, said majority voting ing, but the Belgians were firmly taxes across the EU, according to could be contemplated only if against harmonisation. there was a clear policy for

The two German business organisations, the BDA and BDI, firmly rejected the Franco-German proposals, as did the Confederation of British Industry, Italy's Confindustria and most of the

However, Jacques Creyssel, its Industries backed majority vot-

Business leaders in several reducing taxes and social secu- countries suggested that the inirather than at weeding out unfair tax schemes that might damage other EU states.

John Dunne, director general of the Irish Business and Employ-

fontes?

borders.

des Enterprises de France was smaller countries' business petition was one of the few ecothe only one of 15 business organ- organisations. The Federation of nomic weapons left to euro-zone Swedish Industries favoured har- countries. "If we lose that battle give full backing to tax harmoni- monisation of the tax base, but in the longer term, it should be sation and qualified majority vot- not of rates. Belgium's VBO-FEB tax harmonisation down to where and the Federation of Greek we are, not upward to where other countries are," he added

The survey revealed a strong feeling across Europe that competition between tax regimes was beneficial. But business leaders rity levies. Otherwise it would be tiative was aimed at increasing said tax regimes should not disbetter to retain tax competition. the overall level of EU taxes criminate between domestic companies and those based in other member states. There was also a widespread view that corporate taxes are too high.

ers' Confederation, said tax com- Tax harmony? No thanks, Page 17 as Deutsche.

Deutsche set to quit as head of Russian **GKOs** body

By Clay Harris in London

Deutsche Bank is prepared to resign today as head of a committee representing foreign holders of \$15bn of short-term domestic securities on which Russia

defaulted last summer.

The 19-bank committee, which has been divided on strategy for several months, may split into two camps this week after Deutsche's unilateral acceptance on Friday of Russia's restructuring terms for part of its holdings of the securities, known as GKOs and OFZs.

"If they don't resign, I'm 99 per cent sure they will be sacked," another committee member said of Deutsche vesterday.

Deutsche is believed to be willing to step down if asked to by other banks, even though it sees no conflict in its position. It offered to resign in December after earlier criticism, but won renewed support.

Arguing that Russia's package was worth as little as 2.5 per cent of face value before devaluation of the rouble last August, the GKO committee had been seeking a six-week deadline extension to April 30 in the hope of getting more details about the mechanics and legal backing of the offer.

The committee officially made that request on Thursday, only a day before Deutsche announced its partial acceptance. Deutsche's representative has told other members that the decision was made by other departments in the bank, behind "Chinese walls".

Other members of the 19-bank GKO committee may also urge Deutsche to disclose, at least to its own clients, any commercial benefits it may have received from Russia. Deutsche's similar role as head of the London Club, representing creditors holding \$30bn of Soviet-era commercial question.

Other banks were concerned about Chase Manhattan's decision to accept the GKO offer on behalf of its proprietary holding, but not those of its clients. They said that the US bank, although also a committee member, had been candid about its intentions and did not owe the same duty of care

Taiwan warns it might be forced to strengthen defences

By Mure Dickie and Peter Montagnou in Taipei

Taiwan President Lee Teng-hui has warned that continued military pressure from China will force the island to develop its defences. He says his government is already interested in a proposed US-led missile defence

In an interview with the Financial Times, conducted amid US pute over defence issues. reports of an escalation of China's missile forces, Mr Lee said Beijing's actions were the missile batteries impotent.

"They already have so many missiles," Mr Lee said. "If [the of dialogue and said that in the mainland Chinesel are not going long-term there must be reto reduce their military threat to unification of the mainland and Taiwan, we must prepare our Taiwan. But he gave no hint of a defence systems."

In a signal of growing official enthusiasm for TMD, Taiwanese fragile cross-Strait rapprochenewspapers yesterday quoted ment. senior military sources as saying that Taiwan was making the pur-insist on dealing with Beijing as chase of US Aegis warships, a separate and independent which could play a key role in entity and would keep up its any missile defence system, its drive for greater diplomatic rechighest procurement priority. China has fiercely opposed focus on practical issues.

Washington's development of

still in its early design stages. Beijing last week made a veiled threat to transfer missile technology to third countries if the US extends the shield to cover China's neighbours, including Taiwan, which China considers a renegade province.

Madeleine Albright, the US Secretary of State, arrived in Beijing yesterday for a two-day visit overshadowed by the dis-The Clinton administration last

week vetoed the sale of \$450m worth of telecommunications most important factor in deciding satellites to China, saying the the merits of a proposed US thea- Chinese military was part of the tre missile defence (TMD) system > buying consortium. The US also that might render mainland criticised China's human rights Mr Lee stressed the importance

softening in Taipei's stance on key issues, threatening a recent

Taiwan would continue to ognition, he said. Talks should

TMD, even though the project is Interview, Page 16

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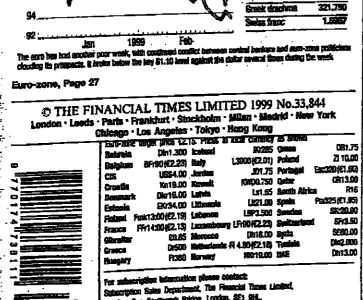


Apax Partners has just invested in QXL, By investing a \$12 million transaction, which is Europe's single largest venture capital investment in e-commerce to date. in real growth Our early-stage partnership with QXL founder, Tim Jackson, will draw on our specialist understanding of this rapidly evolving market and the European across reach of our industry teams to help grow the business. international

Already Europe's largest online auction site, www.qxl.com offers a range of branded goods via the Internet. With German and French-language sites and QXL Exchange for private auctions, the company is now equipped to fulfil its growth potential.

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WORLD NEWS

France seeks pause in talks on EU reforms

France called vesterday for a breathing space in negotiations on the reform of the European Union's farm pol-icy to allow the French and German governments time to bridge the wide divide between their positions.

The French call underscored Paris's growing reluctance to be pushed into a four-day session last week quick deal on the domestically sensitive topic of farm EU leaders on Saturday near policy before the European Bonn failed to make signifiparliamentary elections in cant progress. The main to put things back."

other EU members, French officials recognise it would be harder for the Germans to achieve their ambitious plans to reform the EU's finances under their presidency, which finishes at the end of June.

The agriculture ministers of the 15 members should resume taiks in Brussels tomorrow after a marathon and an informal summit of sticking point has been the

French agriculture without a global deal on restructuring the EU's finances.

"I am not sure that the European Commission and the German presidency are papers and coming up with new proposals between now and Tuesday," Jean Glavany, the French agriculture minister, said yesterday. "If they can, then we will talk . . If not, then it's better

ing to concede a reduction in tions showed very clearly cultural Policy (CAP) that latest Commission ideas to the privileged position of that when "there is no agree- would undermine their cut the prices farmers are ment between France and Germany, the EU is

He added: "We could wait several days, even a couple of weeks, before reconvening capable of revising their the council of agriculture ministers so as to allow time for France and Germany to work towards an intelligent The powerful French farm-

ers' lobby has already warned the Socialist-led government against making Mr Glavany said the fail- concessions in the talks If a delay is accepted by isolation of France, unwill- ure of last week's negotia- reforming the Common Agri-

"Every government makes

said. "One must just make

sure one does not make the

Pekka Haavisto, the Finn-

was similarly realistic, advis-

ing her fellow Greens "to

learn to be happy taking

Behind the scenes, the

French and German delega-

tions sought to ease tensions

between their countries

caused by the German gov-

ernment's initially tough

same mistake twice.

small steps at a time

Over the weekend Luc Guyau, the chairman of FNSEA, the national farmers' union, praised the government for standing firm against "co-financing" - a German move to shift agricultural support from the begun to cultivate. France CAP on to national government budgets. Mr Glavany said the infor-

mal summit of EU leaders over the weekend had "put lead in the wings" of the idea of "co-financing". Paris has also rejected the

would undermine their cut the prices farmers are guaranteed for beef by 25 per cent instead of 30 per cent. The agriculture minister said this move merely helped big rich farmers, while posing a real threat to small farmers whose support the leftwing government has

has proposed the beef sup-

port cut be limited to 5 per

The French have also called for a postponement of milk quotas, arguing this would be costly.

NEWS DIGEST

PRIMAKOV STICKS TO HOLIDAY PLAN -:

Yeltsin 'stable' in hospital after fresh setback

President Borls Yeltsin was yesterday said to be in a "stable" condition in hospital after suffering further compli cations with a bleeding stomach ulcer. But Yevgeny Primakov, prime minister, flew off to the Black Sea resort of Sochi on Saturday for a 10-day holiday.

*If the situation required the premier to stay in Moscow. he would not have flown to Sochi," a prime ministerial spokesman said. Mr Yeltsin has recently been attempting to raise his political profile again after being marginalised for the past few months. But doctors said the president's latest health setback had been caused by overwork. Mr Yeltsin ignored his doctors' advice last month to fly to Jordan to attend the funeral of King Hussein. He has also held recent meetings in Moscow with Zhu Rongji, the Chinese premier, and other leaders of the Commonwealth of Independent States. John Thornhill, Moscow

KOSOVO VIOLENCE

Serb policeman killed

One Serbian policeman was killed and four were wounded in southern Kosovo yesterday as government forces bat-tled with separatist ethnic Albanian guerrillas on the first anniversary of the war in the province. International observers said between 2,000 and 3,000 ethnic Albanian es who fled the flighting around Kacanik, 15km north of the Macedonian border, were prevented by Serbian authorities from crossing over as refugees.

"There are 1,000 or 1,500 people queued up along the highway about 500 metres short of the Macedonian bor-" said a United Nations spokesman. Thousands of ethnic Albanians, including guerrilla units, marked the first anniversary of the war in the Serbian province yesterday

The state of the s

with a sombre ceremony in the village of Likosane. Twenty-five ethnic Albanians, including 10 members of a single family, were killed in the village a year before after fighting sparked by a police ambush of a car carrying four Kosovo Liberation Army guerrillas. Reuters, Pristina

AIR TRAFFIC DISPUTE

Strike threat to Helsinki airport

Finnish air traffic controllers are this week expected to step up industrial action that has paralysed the domestic airline network and disrupted international air traffic over the past three weeks. Helsinki airport is likely to close for two days a week, beginning tomorrow and Wednesday, following a collapse in pay talks between the country's civil aviation authority and air traffic control unions.

Finnair, the national airline, warned at the weekend that it would begin laying off staff if the dispute was not resolved quickly. The partially privatised flag carrier, which has lost FM105m (€17.6m, \$20m) since the strike began. declined to say how many of its 9,000 staff would be affected.

Air traffic controllers are seeking a 26 per cent pay rise and additional benefits including company cars. They have been offered a 12 per cent salary increase. The average monthly wage among the country's 250 controllers is FM25,000. The dispute has focused attention on industrial relations and wage moderation in the run-up to Finland's general election on March 21. Finnair has warned that the closure of Helsinki's Vantaa airport will increase its v losses to FM55m. Tim Burt, Stockholm

IMF WEIGHS LOAN

Praise for Romanian reforms

The International Monetary Fund has said Romania has made "solid progress" on economic reforms in recent months, and that Bucharest's formal request for a standby loan would be "considered" by the Fund's executive board in June. This year Romania faces foreign debt service payments of \$2.9bn, the bulk of which falls due in May and June. Radu Vasile, the prime minister, has said that if Romania does not sign loan accords with the IMF, the

worst economic collapse scenarios might come true". Romania is negotiating a \$480m standby agreement with the IMF, to be dispersed in six tranches over 18 months. Emmanuel Zevourdakis, the IMF's Romania director, said his team would return to Bucharest in April. Romania's central bank said yesterday it had placed

Bancorex, a troubled state-run bank, under special administration to help it restore normal operations. Mr Vasile said he hoped extraordinary powers extended to a special administrator would help the bank get ready for privatisation this year. Joe Cook, Bucharest

DISPUTE OVER KURDS

Turk call for Greek sanctions

Turkey's president has called on Nato allies to impose sanctions on Greece for supporting the PEK guerrillas of Abdullah Ocalan, the imprisoned Kurdish rebel leader. President Suleyman Demirel opposes granting minority rights to Turkey's Kurdish population. He hinted last week that Turkey could use military torce against Greece unless it renounced what he saw as support for the PkK.

Turkey has long accused Greece of providing aid and training to Ocalan's rebels, but Greece has denied the accusations, saying it helped Mr Ocalan only as a humanitarian gesture. AP, Ankara



FINANCIAL TIMES

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art (for 50) for a set of four dry Repremental and four heads of a kernard

FRANCE

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Greens keen to boost EU

By Robert Graham

Europe's Green parties the European parliament, yesterday signalled their determination to play a bigger role in setting the Eurosocial agenda by agreeing a common programme to fight the June elections to the European parliament.

At what was only the second congress of European Green parties, the increased importance of the movement was underlined by the of government coalitions in four of the 15 EU countries and Italy.

endorsed at a three-day by more than 300 delegates. congress of European Green parties in Paris, seeks the traditional right-left

while bringing EU institutions closer to the electorate.

Apart from the traditional emphasis on phasing out nuclear power, the Greens have committed themselves to work for a more humane immigration policy. The manifesto also calls for envibigger part in the fiscal system and for greater fiscal fairness by reducing tax maturity was caught by

competition between states. on issues such as Kosovo The Green platform, and Kurdistan were adopted

"This is the first time we have really got together, and ries sought to share a com-It pledges to build a "citi- Floss, spokesman for the fed- nuclear power proposals.

zen's Europe", with an eration of European Green extension of the powers of parties, which embraces groups in 28 countries in and outside the EU. The Greens have 27 mem-

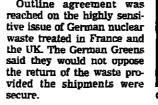
bers in the outgoing European parliament, with 12 ish environment minister, from Germany. France, where the Greens'

list is headed by Daniel Cohn-Bendit, the charismatic student leader of 1968, is thought likely to elect ronmental taxes to play a Green MEPs for the first The mood of political

Joschka Fischer, foreign The programme and minister in the German gov-Finland, France, Germany accompanying resolutions ernment and symbol of the Green movement's new sta-He said it was not easy to

move from a culture of protest to the exercise of power, to capture voters across despite our different histo- citing as an example the recent back-tracking of the the return of the waste promon platform," said Franz German government on

line on phasing out nuclear power and nuclear waste Outline agreement was reached on the highly sensisaid they would not oppose





and asylum seekers.

José Maria Aznar, the Spanish prime minister, proposed that an EU pro-

gramme worth about €3bn (\$3.3bn) a year be set up for

member states that face pressure of immigration from the applicant countries

of eastern and central

Europe and which also bear

an excessive financial bur-

den from refugees and asy-

The funds would mainly

help Germany, which wants

to reduce its €11bn net con-

tribution to the EU, and Aus-

tria. The programme would remove one of the main

stumbling blocks in the

Agenda 2000 negotiations on

reform of the EU's budget.

It was not immediately

clear whether the proposal

outlined by Mr Aznar at last

Friday's special informal summit of EU leaders near

Bonn, would gain support,

Germany, which currently holds the EU's rotating six-

month presidency, is push-ing for budgetary rigour in

Europe, with a stabilisation

in real terms of spending

Some observers suggested

Mr Aznar's plan might be a

ploy to divert discussion

away from plans to cut

Spain's entitlement to EU

financial support in the

Agenda 2000 negotiation.

Spain adopted an especially

an Agenda 2000 settlement.

last Friday although some

adapt for the euro, by saying there were no plans to stop

payments abruptly.

from 2000 to 2006.

farm and regional policies.

lum seekers.

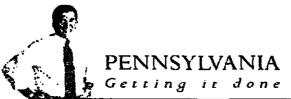
in gesture to Bonn By Peter Norman in Brussels Spain has suggested solving the vexed issue of Germany's high net contributions to the European Union through a special fund to offset the costs of immigration



Not all the Silicon Valleys are growing out west. This one, in fact, isn't even west of Pittsburgh.

Kingdom Computers, based in a tiny valley in north central Pennsylvania, is one of the fistest growing start-ups in the U.S. Why! Because Kingdom Computers builds award-winning PCs and provides incredible service. And because of a great high-tech business parmer - Pennsylvania, "Dealing with the Ridge Administration is like dealing with family," says 28 year-old Mike Ulmer, Kingdom Computers' president. Kingdom took advantage of Pennsylvania seed financing and business contacts and reaped the benefits. Now one of the top SOC

companies in the US. Kingdom's rapid annual growth rate is projected to be 800% over the next three years. And thanks to business incentives like a 10% R&D tax credit and Tech 21, the Governor's mittative for a high-tech Pennsylvania, other emerging-tech companies are taking nivit here as well. No wonder Pennsylvania is a rop ten state in high-technology firms. So join the rish and move war high-tech business here. With all the valleys in Pennsylvania, wou could have one all your own. Firm re mi mutan call 1-800-554-PENN.



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Obasanjo seen as * safest pair of hands

TO HOLL

setback

opponent, Olu Falae, has as well as spending the betmade over the irregularities in the weekend's presidential election, Nigeria's future appears to rest in the hands of Olusegun Obasanjo.

For millions of Nigerians who voted for the erstwhile military ruler, as well as for well-wishers in the west. those hands represented the safest pair on offer to guide Nigeria through one of its most turbulent periods since the Biafran civil war in the Only eight months ago the

61-year-old former general was behind bars, victim of the most sinister and brutal dictatorship Africa's most populous state had known. In most parts of the world such a precipitous journey from jail to victory in presidential elections would be considered remarkable. But many Nigerians appear to have overlooked the fact that the general, who ruled the country from 1976 to 1979 before becoming a chicken farmer after his hand-

ver, has paid some dues. Whatever protest his years as a political prisoner. He served more than three ter part of two decades campaigning across the globe for good governance as a leading figure in Transparency Internal, the Berlin-based anti-corruption lobby.

He also won plaudits for his role as a member of a Commonwealth Eminent Persons Group which made contacts in the 1980s with then jailed South African leader Nelson Mandela, starting a dialogue that paved the way for an end to apartheid.

What makes him such a controversial figure among those who cast their vote the other way is the loathing he narbours now for all forms of military involvement in government. In his campaign, Chief Falae repeatedly

strongest among his own Yoruba group, which has not forgiven him for what it sees as the backing he gave the northern candidate he handed over to after elections in 1979. Among the Igbo ethnic group in the east, attitudes have been more ambiguous.

In 1969 it was Gen Obasanjo who received the surrender of the Igbo rebels fighting for a separate Biafran state.

When calculating their own future after deciding to forgo their traditional monopoly on the top job in the interests of national unity, northern leaders backed Gen Obasanjo. For his detractors the fact

that it was retired generals and establishment figures who bank-rolled his campaign could prove his undo-But those who know the

general say he is unlikely to be a stooge of the confluence of northern political and military establishments which has done much to win him back the presidency. "Obasanjo is a man who

cial biography.

This conservatism is seen

believes in the system, and figures give him a solid manleadership to him means tindate to go into office, they kering with the existing seem unlikely to end the structures to evolve a more controversy his re-emerdynamic one in which hard gence has provoked. work is encouraged and For some Nigerians he

rewarded and indolence and lacks the intellectual capacwaste and indiscipline are ity to work out how to resdiscouraged with enforcecue the country from ecoable sanctions," says Onunomic collapse. For others a kaba Ojo, who wrote his offitough paternalist who knows, from within, the workings of the army which by some as worrying at a has deprived Nigeria of time when radical reform transparent government for beckons. While the official

Israel vows to avenge Hizbollah killings

By Avi Machlis in Jerusalem and James Schofield in Beirut

ه کوزا من الاجهال

Israel yesterday vowed to strike back at Hizbollah, the Lebanese Islamist Shia movement, after its guerrillas killed a senior Israeli commander and two other soldiers in Israeli-occupied southern Lebanon.

The Israeli army yesterday confirmed that Brigadier-General Erez Gerstein, com mander of the Israeli army's liaison unit to Lebanon, had been killed. A journalist with the convoy on assign ment for Voice of Israel radio was also killed.

Hizbollah detonated a roadside homb as a military convoy passed by in the east ern sector of Israel's "security zone" in southern Lebanon. The attack came less than one week after Hizbollah killed three Israeli army officers and raised the Israeli military death toll in south Lebanon to seven this year. Israel, its Lebanese Christian allies and Hizbollah have engaged in a spiralling cycle of violence. Israel killed at least three Hizbollah fighters last week, Israeli jets have bombarded suspected Hizbolso long was the safest bet. | lah positions and yesterday

two Hizbollah rockets hit a northern Israeli town. Before Israel confirmed

the attack, Benjamin Netanyahu, Israeli prime minister, said Israel "could not tolerate these kinds of repeated attacks...and Israel will know what to do in unconditionally from Amman where he met senior

'When the Israelis came here, they didn't ask

ing between the two leaders since the death of Abdullah's father, King Hussein, last month was overshadowed by the Lebanese tensions.

permission'

Mr Netanyahu hoped to smooth relations after he angered Jordan last week by saying Israel feared Iraq could become a nuclear power and then threaten Israel from the Israel-Jordan border. After meeting Mr Netanyahu, Fayez al-Tarawneh, Jordanian prime minis-

Qasem, Hizbollah deputy secretary general, said the attack "confirms our determination" to continue fighting Israel until it withdraws response". He spoke in southern Lebanon Ibrahim Moussa, Hizbollah spokes-Jordanian officials and King man in response to a question why Hizbollah appeared to be stepping up attacks, said: "When the Israelis came here, they didn't ask

anyone's permission." Last year, Israel offered to withdraw from Lebanon based on UN Security Council resolution 425 from 1978 which called for an immediate Israeli pullout. But Israel, which says it needs to maintain its presence as a buffer against guerrillas, also demanded security guarantees from the Lebanse government.

Mounting Israeli casualties have changed public opinion on Lebanon substantially in the last two years. A public opinion poll last Friday in the Israeli daily Ma'ariv showed that 35 per cent of Israelis now supported unilateral withdrawal while 53

stressed that, regardless of how long ago General Oba-sanjo traded in his uniform for the flowing agbada robes traditional to his Yoruba ethnic group, he retains a "military mindset" Opposition to him proved IMF executives cautious over

credit line plan

US President Bill Clinton's proposal to provide well-behaved emerging market countries with credit lines to ward off financial crises is running into opposition on the International Monetary Fund's executive board.

Some European countries and poorer developing nations feel they are being railroaded into support for the initiative by the US and the UK, which in turn are supported by some of the emerging market nations that might benefit from

good policy record offered a about what would have happrecautionary line of credit. in effect boosting the reserves they have available to defend themselves against speculative attacks.

The finance ministers and central bank governors of the Group of Seven leading industrial nations gave apparent backing to the plan in the communique of their recent meeting in Bonn.

"We welcomed the substantial progress in developing an enhanced IMF facility providing a contingent short-term line of credit. accompanied by appropriate private sector involvement," the G7 said.

"We will work at the IMF to ensure that this facility is introduced as soon as possi-

But one senior European official said there remained doubts about the scheme, even within the G7. "The ref- withdraw credit lines from erence to the 'enhanced facility' is German code for deteriorate.

'be careful'," he said. de

Wijnholds, the IMF executive director for the Netherlands, expresses the concern of opponents of the scheme in an article in today's FT. In an unusually public intervention for an IMF director. he argues that the credit line proposal is "not helpful".

Mr Wijnholds believes the credit lines would encourage private sector investors to lend too much to risky emerging market countries. By providing an unfront guarantee to countries on the basis of past policies, it would also weaken discipline on them in the future.

"For those who are scepti-President Clinton's plan cal about this argument, I suggest they think pened if such a contingent credit line had been available to Indonesia or South Korea in 1997, or to Brazil in 1998," he says.

The IMF board will next discuss the proposal on March 12.

One area of contention will be whether the credit lines form a new facility (in which case they will require 85 per cent support on the board) or a window in the existing supplemental reserve facility (in which case only a simple majority in favour will be needed).

There are also doubts within the IMF's senior management about the wisdom of the credit line proposal Michael Mussa, the Fund's economic counsellor, has opposed the idea in the past, arguing that the IMF board would be very reluctant to countries where policies

Beaufort Personal View, Page 16

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Iranian voters back reformists

By Robin Allen in Tehran

A heavy turnout, notably by young voters, and partial early returns from Iran's nationwide local council elections augured well yesterday for reformist supporters of President Mohammad

More than 300,000 candidates were competing for some 200,000 local council

Balloting for local seats ended late on Friday, with official results expected later

Iranian analysts have described the elections as several days, officials said. the first in the country's history to be free of pre-election rigging and the threat of unelected bodies now controlled by clerical and judi-

cial bardliners. By yesterday afternoon, according to officials at the Interior Ministry's election headquarters, three reformist candidates - Abdollah Nouri, former interior minister. Saeed Hagerian and of the former students who 2000.

helped occupy the US embassy 20 years ago - were clear leaders among nearly 4,000 candidates competing for 15 local council seats in Tehran, the capital and the key to reformists'

in Semnan, east of Tehran. and two other cities women have swept the board in council seats, and reformists across the country are reported to be well ahead in the count.

Counting still had to be approved by election committees and final results would not be announced for

According to Neshat, a pro-Khatami newspaper, "the results of these polls annulment by autocratic will force the conservatives to change their political views and opt for reform. We are already witnessing signs of this coming from the lower ranks of establish-

Reformists see the local polls as a key step towards loosening the conservatives' hold on parliament in gen-Mohammad Azgazadeh, one eral elections, due in March

Court to hear key case on discrimination

new standard nationwide

that could limit the size of

both jury awards and pre-

Conversely, if Ms Kolstad

wins, jury awards and settle-

ments could shoot up. Her

lawyers argue in their brief

that "egregious" is too high

employers knew or should

have known their conduct

was probably unlawful in

punitive damages put before

"If adopted, this standard

would subject employers to

engages in intentional dis-

'Our concern is

damages would

become the norm

another," the US Chamber of

Commerce argues in a brief

tive damages would become

the norm, not the exception.

whereas the law clearly

intends them to be the

exception." says Stephen

Bokat of the National Cham-

ber Litigation Center, which

Research, which tracks jury

awards, 40 per cent of ver-

dicts in gender discrimina-

tion cases in the last six

years have included punitive

ages at \$50,000-\$300,000 per

plaintiff, depending on the

A lower court jury

size of the employer.

has also backed the ADA.

"Our concern is that puni-

filed to support the ADA.

that punitive

The US Supreme Court today hears a case which could have a big impact on the size of damages paid by US employers in employment discrimination law-

The court agreed to hear a standard, and that employ the case. Carole Kolstad vs ees need only show that the American Dental Association (ADA), to clarify what kind of employer conduct will give rise to punitive order to have claims for damages - damages awarded to punish and deter an a jury. offender – in lawsuits involving sex discrimination. However, employment law punitive damages virtually experts said the suit was every time an employee also likely to have a knock-on effect on race, age, and other employment discrimination suits brought under Title VII of the 1991 Civil Rights Act.

The case involves a female lawyer employed as a lobbyist for the ADA, a professional trade association. A jury found that Ms Kolstad was denied promotion because of intentional sex discrimination. The issue before the court is not whether this is so, but whether such discrimination must be "egregious" before punitive damages are awarded.

Title VII permits such damages where there was malice or ... reckless indifference to the federally protected rights of an individual". But in Ms Kolstad's case an Appeals Court found that the ADA's conduct was neither "egregious" nor "truly outrageous" enough

to merit punitive damages. At the moment there is confusion over the standard of conduct necessary to attract punitive damages, with the various circuit courts applying differing awarded Ms Kolstad back standards to define "reckless indifference". If the Supreme Court upholds the Appeals Court's decision in Kolstad that the conduct did not tion for which he was less meet the standard of "egre- , qualified then she was.

Y2000 tests

5,000 traders, systems pro-

The industry-wide effort on Saturday and Sunday represents the second phase of Street, after tests last July. Those involved only 21 securities firms and eight exchanges.

January 3. These dates were securities being tested take three days to settle, so orders entered on December

The firms involved account for the bulk of US securities trading, according to the Securities Industry Association which is co-ordinating the effort.

According to Jury Verdict daily volume in the test.' pliance] can do so with their clearing firms. Even if there not be as great."

The total cost of systems pay after a male employee in the same office was, according to her lawyers' brief, "preselected" for a promodue to be conducted in June. I had been informed by state

Wall St gears for

The calm that normally reigns on Wall Street outside trading hours will be disturbed next weekend when grammers and support staff conduct the securities industry's biggest test of Year

Year 2000 testing for Wall

simulate trading on Decemprepared script, involving of Minas Gerais. more than 400 firms, including the fund managers who are the ultimate buyers and sellers of most securities, as well as the traders who act as intermediaries and clearing firm and exchange staff. The testing, which continues on further weekends in March and April, will include simulating trading on December 30 and 31 and chosen because many of the

29 will be the first to settle in the year 2000.

"We have the firms that account for 98 per cent of said John Panchery. Year 2000 project manager at the SIA. "Any small firms that have to test [their Y2K comis a problem with that small firm, the ripple effects would

remediation of the Year 2000 problem for the securities is estimated at \$5bn, according to the SIA. Cross-border testing of securities trading is

BRAZILIAN STAND-OFF PRESIDENT'S TALKS WITH GOVERNORS ISOLATE FRANCO OF MINAS GERAIS Cardoso mends bridges with states By Geoff Dyer in Brasilia

Brazil's President Fernando Henrique Cardoso has gone a long way toward breaking the impasse between the fed eral government and several state governors, a stand-off which had been threatening to undermine his administra-

Following a meeting on Friday with 26 of the 27 state governors, Mr-Cardoso proposed a number of conces states' finances. However, he refused to reopen negotiations about debt renavments

The positive response that Mr. Cardoso's proposals received, including from opposition parties, served further to isolate the one governor who did not attend: ber 29, 1999, according to a the meeting, Itamar Franco It was the declaration of a

moratorium on January 6 by Mr Franco, who is demand ing a revision of Minas' debt repayments, which high-lighted the financial problems of many states and sparked the confidence crisis that forced the recent currency devaluation



meeting," said Anthony Gar- est state. otinho, the opposition governor of Rio de Janeiro. "More than just opening a dialogue, the meeting overcame misunderstandings and obstacles," said Mario Covas, gov-

ernor of São Paulo, the richernment would provide loans to help states reduce

a state sales tax. he said their payroll, their main budgetary problem, and to set up pension funds for civil

servants. The government would also revise a law which exempts exports from The danger for the government, which did not provide any figures for the potential

decide they will undermine Brazil's fiscal austerity drive. However, ministers argue that they are creating the conditions for states to make vital cuts in their The government hopes the

perceived success of the meeting will allow Mr Cardoso, who has been widely criticised for indecision since the devaluation, to recover the political initiative.

He received a further boost on Friday when his nominee to head the central bank, Arminio Fraga, was comfortably approved by a Senate committee despite harsh criticism from opposition senators over his links with George Soros, the bil-lionaire investor. The full Senate will vote on his nomination this week.

However, it is not clear how Mr Cardoso will resolve the conflict with Mr Franco. whose rhetoric has become ever more aggressive. "Our said last week. "We will resist in it as along as possible." He said on Saturday that he had no intention of

CHARGES OF SEDITION OUTCOME WILL BE A CRUCIAL INDICATOR OF GOVERNMENT'S ATTITUDE TO REFORM

ban dissidents face trial today

Four leading Cuban dissidents, whose case is widely seen abroad as a test of the communist leadership's attitude towards nonviolent political opposition, are due to go on trial in Havana today charged with

The four - Martha Beatriz Roque, Félix Bonne, René Gómez and Vladimiro Roca have been held for more than 19 months, despite 16 1997, the four dissidents from the Vatican, Canada, the European Union, the US and human rights organisations such as Amnesty International.

Family members said they

security officers the trial boycott one-party elections Roca and five-year terms for the four well known dissiwould go ahead today. There was no announcement from the Cuban government, which is often reluctant to give information about political arrests and trials.

Other anti-government activists were reported to have been detained by police over the weekend, apparently to stop them staging demonstrations during the

Before their arrest on July appeals for their release held news conferences for foreign diplomats and journalists and released documents criticising the grip on power held by President Fidel Castro's ruling Cuban Communist party.

businessmen warning them they could be contributing to the suffering of the Cuban people by investing in Cuba Four accused of

and sent a letter to foreign

inciting others to 'subvert the order of socialist state

under the current govern-

In its preliminary findings the State Prosecutor's Office argued the four were guilty of sedition and asked for a They also urged voters to six-year jail sentence for Mr to appeals for the release of US government.

tion accused them of inciting others to "subvert the order of our socialist state".

signal regarding the Cuban government's attitude to democratic reform. Acquittal or lenient sen-

authorities are willing to heed international calls for subversion legislation which greater political freedoms, established jail terms of up such as the plea made by Pope John Paul II when he visited Cuba in January last

Although more than 300 prisoners were freed after anti-government dissidents the Pope's visit, Mr Castro has so far turned a deaf ear directed and financed by the

the other three. The prosecu-dents, and to calls for a

iail terms sought by the The outcome of the trial is prosecution this could send likely to send an important a strong message that the authorities are not willing to tolerate political opposition of any kind.

The trial was scheduled tences might suggest the just two weeks after the government passed tough antito 20 years for anyone judged to be "collaborating" with hostile US policy

Cuba routinely alleges on the island are backed,



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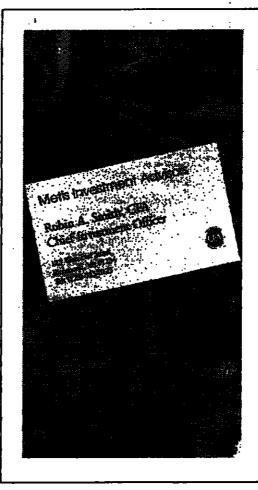
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While in Buenos Aires, Kate Archer's **meeting** in Sydney was cancelled, so she stopped by an American Airlines ticket office and **changed** her Qantas ticket for a British Airways **ticket home**. How in the world does she do it?

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t passengers on schadulad flights that are both operated and make eachy urricer on your floket) American Airlines, British Arways (Carracian Airlines). (

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China eyes more infrastructure bonds

China is considering issuing a second tranche of infrastructure bonds this year to stimulate the slowing econ-

A decision on whether to launch more bonds could be taken during the full session of the National People's Congress (NPC), or parliament. which starts on March 5, the official China Daily newspaper said yesterday. A decision could, however, be post-

ing that has flowed from a RMB108bn (\$12.1bn) bond issue in August has been identified by officials as the main engine of economic growth last year.

Liu Hong, commissioner of the national bureau of statistics, said last week that 4.8 percentage points of China's official 7.8 per cent growth in gross domestic product last year came from a 14.1 per cent year-on-year increase in fixed-asset modest an amount - when investment. Officials said

investment was driven to a RMB2,845.7bn last year - to Significant extent by the infrastructure projects almost half of the year's ecofinanced from the bond issue, and from state bank

But many independent economists believe that the 7.8 per cent figure and the contribution of the fiscal stimulus package may have been significantly over-

First, RMB100bn seems too modest an amount - when village enterprise sector, compared with China's total climbed 0.6 per cent and

have been the dynamo for nomic growth. Second, investment by the non-state sector last year was lacklus-

Pixed-asset investment by collectively owned enterprises in the cities dropped 16 per cent year-on-year. Investment by rural collectives, which includes most of unveil an expansionary bud-China's so-called town and

vate sector rose 6.1 per cent. But regardless of the true impact that investment had fiscally driven infrastructure spending remains one of the few policy options open to

combating the economic slowdown. Xiang Huaicheng, finance minister, is expected to get at the NPC next week.

RMB105.3bn, up from RMB96bn last year, but Mr Xiang has said the deficit could end up being larger than predicted.

China's room to issue more bonds is somewhat circumscribed by the fact that debt revenues in 1997 were 54 per cent of the government's fiscal income, a proportion which almost certainly climbed again last year. In addition, China's tax income as a percentage of Officials have already fore- GDP, at about 10 per cent cast a deficit for 1999 of last year, is seen as too low.

Falah, a Karachi/Abu Dhabi

consortium, Al Yousaf group

of Muscat and the Interna

tional Investor of Kuwait).

Although still undecided

"We are asking the cabinet

committee on privatisation

to repeat the Habib Bank's

expression of interest," Mr

Khawaia Asif, chairman of

Role for UN sought in East Timor

By Peter Wise in Lisbon, and Sander Thoenes in Jakarta

Portugal and Australia want a United Nations presence in East Timor to help ease tensions as the territory moves towards autonomy or full independence from Indonesia. But Australia says an armed peacekeeping force is not required.

The Portuguese and Australian foreign ministers, who met in Portugal on Saturday for talks on the future of the territory, urged opposing factions in the former Portuguese colony to show restraint and avert further bloodshed.

East Timor, off northern Australia, was invaded and annexed by Indonesia after the Portuguese colonial administration withdrew amid civil strife in 1975. Human rights organisations estimate that more than 200,000 East Timorese have died since the invasion.

ate of the South Korean Dae-Portugal has condemned woo Corporation) and a con-Indonesia for arming prointegration militias after sortium of Habib Bank agreeing to grant East Timor independence if the Timothe commission is apparrese rejected an offer of ently considering plans to autonomy. Two separatist privatise the overseas netactivists and a soldier were work in separate chunks, though still loosely tied to killed in the latest incidents on Wednesday.

Jaime Gama, Portugal's foreign minister, said a UN Shell and Woodside Petropresence was needed as early as possible to help stem the escalation of tension and oversee the transition to autonomy or indepen-

This would include monitoring the decommissioning Alexander Downer, his he envisaged the sending of civilian UN personnel to

Under this approach, the sive UN peacekeeping force, heavily armed, landing on the shores of Past Timor"

further round of UN-sponsored talks on East Timor. Kofi Annan, UN secretary general, is expected to make a decision on a UN presence in the territory.

Portugal and Australia, whose relations have been issue, achieved a broad consensus in the weekend talks on how best to support a peaceful transition in the territory, diplomats said.

This will include ensuring that the East Timorese benefit from offshore oil resources in the Timor Gap. A 1989 treaty, unsuccessfully challenged by Portugal, splits the oil and gas field between East Timor and northern Australia into

Presence needed 'as early as possible to help stem rising

tension' three zones: Australian,

Indonesian and joint co-operation. Companies currently

involved in Timor Gap projects include Broken Hill

 Delegates from Irian Java who met B.J. Habibie, Indonesian president, on Friday made a surprise call for independence, rejecting an offer from Jakarta of expanded

The president had invited the delegates in an effort to Australian counterpart, said assure the resource-rich region that he shared their concerns, but they reacted to help in the process of con- an offer of independence for sulting the East Timorese on East Timor to demand the

.. Diplomats say growing numbers in Aceh, the western-most part of Indonesia. Portuguese and Indone- have also switched from callsian officials will meet in ing for autonomy to demand-

Singapore opts for caution in fuelling growth

By Shelia McNulty in Kuala Lumpur

Singapore has opted for caution in its 1999-2000 budget, providing only mildly mendable performance given stimulative measures for the a region in recession. economy while focusing on Although growth decelerated improving long-term compet-

"Even as we adopt short-term measures to deal with current difficulties, we have to keep our eyes on the said overall trade shrank 7.5 future, develop the infra- per cent in 1998, visitor structure necessary for our arrivals declined by 13 per future growth, enhance our capabilities and put in place a conducive framework for 10 per cent and job losses businesses and individuals reached a record 28,300. in Singapore to thrive," said Richard Hu, finance minister. "Only then will we be well placed when the region recovers from the economic

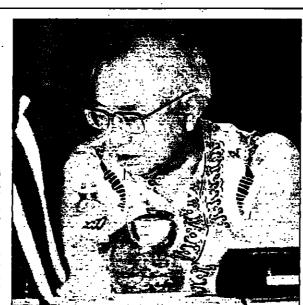
Economists applauded the city-state's through the system. In June, administration throughout the government imple-Asia's crisis for not resting mented a S\$2bn (US\$1.2bn) on its laurels because of the off-budget package of cost superior health of its own

upgrade their skills to the main elements of busienable it to emerge stronger ness costs. The cornerstone from the crisis. The economy was a 15 per cent reduction grew 1.5 per cent last year. in overall wages.

above the government's 1.3 per cent estimate, in what Neil Saker, SG Securities' head of economic research in through the year, versus 8 per cent in 1997, it was still

much better than any distressed regional economy." However, the government cent, activities in the Asian dollar market contracted by

Singapore warned that this year could also be difficult. But instead of providing a wide-ranging boost to business, the administration has decided to let measures have announced last year work cuts and spending measures. And in November it imple-Singapore has urged its mented a S\$10.5bn costcitizens to cut spending and reduction package, covering



already help push the budget into deficit for the first time since the mid-1980s recession. It will be funded from surpluses accumulated by the government in its current term. As those efforts were designed to help business, the S\$29.2bn 1999-2000 budget focused instead on relieving pressures on individuals and building up stra-

tegic industries. There was a 10 per cent personal tax rebate, double that given last year and reliefs for those in public housing. Tax incentives were provided to various sectors, including the bond market and boutioue fund manpromote the city-state as a year.

These measures will regional financial centre. They were also extended to companies that use Singapore as an operational headquarters performing at least one substantive global func-

> The largest allocations of the budget went, as in previous years, to defence, at 25 per cent of total government spending, and education, at 19 per cent. Spending on development will amount to S\$13.9bn, up S\$1.2bn from fiscal 1998 to invest in strategic projects such as land reclamation and information technology.

The government is fore casting gross domestic product of between minus 1 per agement, as part of efforts to cent and plus 1 per cent this

Islamabad to seek fresh bids for Habib Bank

and Clay Harris in London

Pakistan's privatisation commission plans to seek fresh offers for Habib Bank, the largest public sector bank, after a disappointing response from prospective investors last week.

The commission's chairman said separate offers for parts of Habib's international network would now be considered. The deadline for offers is March 15. The new offers are being the core.

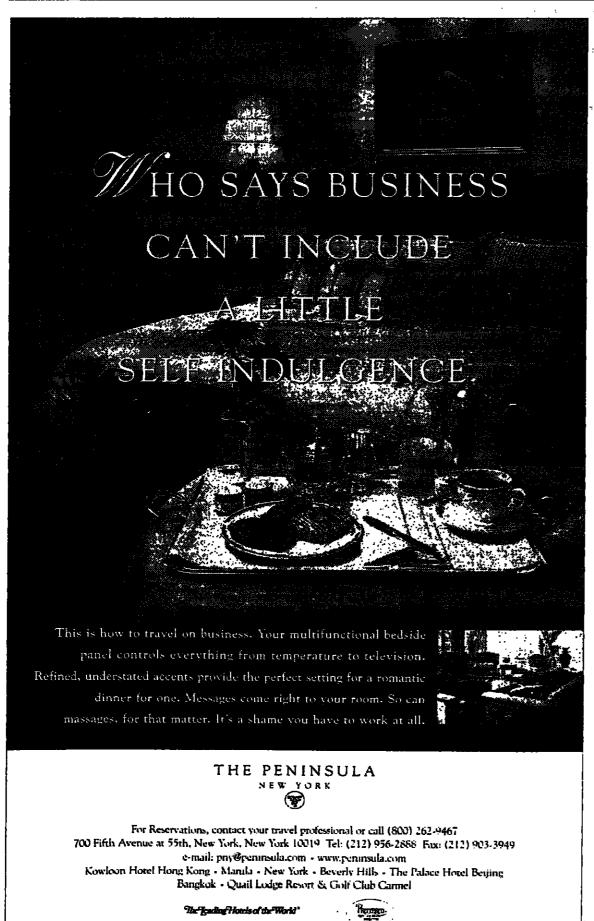
sought partly because of possible objections from the UK's Financial Services Authority. The FSA must give its consent since Habib is licensed to take deposits in the UK, where it has 16

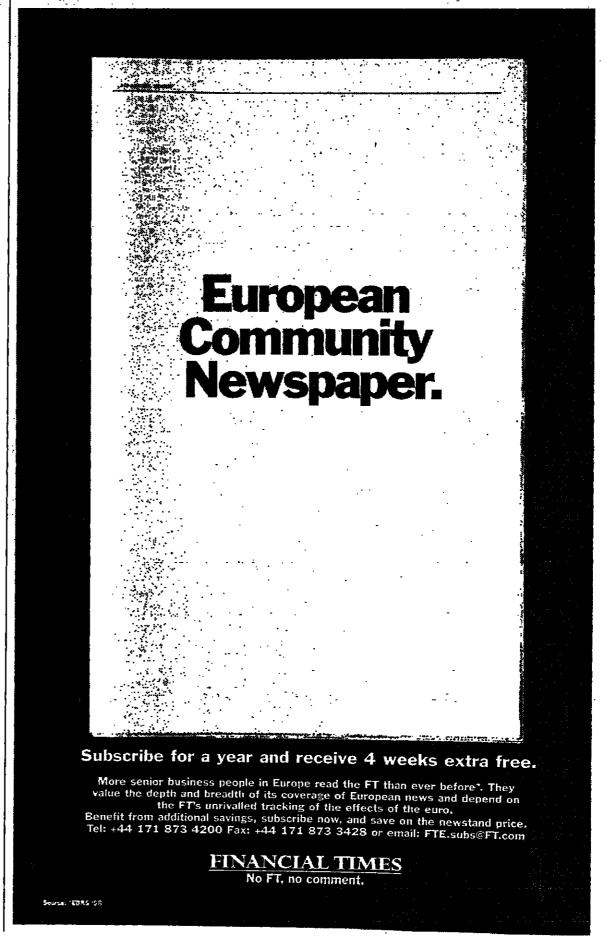
Pakistani officials say the FSA could object to any one of the six prospective buyers, who have had no experience of running a worldwide banking network. Under UK law the FSA may accept the word of the home country supervisor in deciding whether a bank is "fit and proper". However, it has wide discretion in making its judgment on suitability.

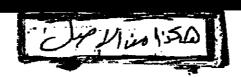
The six expressions of

the commission, said. Mr Asif said there was merit in considering sales of foreign branches to financial groups in their countries of operation. "To give one example, Habib Bank last year showed profit of Dh2.5m [\$680,000] in the UAE, which is pathetic. A party from there can do much better". their future, but "not a mas-

UK branches could be sold to a buyer acceptable to British authorities while networks elsewhere could be sold to interest include four Middle other investors, Mr Asif said. New York next week for a ing independence.







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Leap in fiscal deficit forces India to raise direct taxes

India has raised direct taxes for the first time in a decade after an unwelcome spurt in this year's fiscal deficit. The rises came in a weekend budget, flagged by Yashwant Sinha, the finance minister, as launching a "mediumterm strategy" to restore 'fiscal health'

Indian stocks surged on Saturday in response to market-friendly fiscal measures in the budget, and industri-alists welcomed fiscal stimuli to buoy growth in sectors such as housing and agriculture. But many analysts remained unpersuaded that Mr Sinha had done enough to allay fears over govern-

Revealing a leap in the fiscal deficit to 6.5 per cent of doing the same with excise gross domestic product from the budgeted 5.6 per cent, and citing a "growing and critical source of concern" over rising spending, Mr reduced India's maximum Sinha characterised his budget as placing a "strong corat the same time rationalis-

Analysts saw the budget as steering a difficult course under fiscal and political constraints - with his Bharatiya Janata party-led coalition government enjoying a slim majority - to rein in finances, offer some demand impetus to a limping economy and promote further economic reforms. "Given the constraints, it strikes a

balance between giving a demand shock to the economy without further fiscal indiscipline, but perhaps at the cost of making further structural reforms, which could prove politically destabilising," said Vikram Goval. India economist for Morgan Stanley in Hong Kong. Mr Sinha raised both corporate and upper-tier per-

sonal taxes by 10 per cent, and customs duties. He allowed to lapse additional surcharges worth 5 per cent on customs duties and tariff to 40 per cent but imposed a minimum 5 per cent tariff on duty-free items. The overall effect ing an expected record slightly increases average Rs100bp (\$2.35bn) from disin- ability to contain spending.

considerably buoying indirect tax revenues. But the budget was otherwise largely devoid of overtly swadeshi, or economic nationalist. measures. Indeed, Mr Sinha promised further liberalisation for foreign investment approvals

"in a few days".

The reformist core of the budget, which made more promises of structural reforms than direct commitments, lay in a simplifica-tion of indirect tax bands, cutting to five bands from seven the rates of customs duty and to three from 11 the number of excise bands. Based on a currently optimistic growth forecast of

year, and a 20 per cent surge in tax receipts, he promised to cut the fiscal deficit next year to 4 per cent of GDP. pointed out that this sharp crete step was the abolition cut rests partly on ambitious revenue forecasts - includ-

per cent for next year.

lated on the basis of a new series of GDP figures, which have on average raised national income figures by 9 per cent, thus trimming all ratios to GDP. Mr Sinha's deficit forecast also rests on removing "small savings" from the calculation savings receipts which are lent to the states and form part of the government's consolidated spending, Commentators said that, on a like-for-like basis, including "small savings" and using the old series GDP figures.

Next year's deficit is calcu-

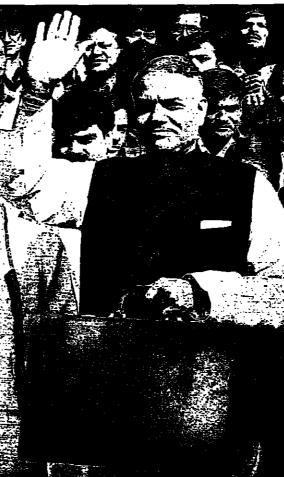
juggling of figures

between 6.5 per cent and 7 year's missed target. The finance minister against 5.8 per cept this promised to address high government spending by starting to "downsize" the bureaucracy and appointing an expenditure reforms com-However, several analysts mission. But the only conof four senior bureaucratic posts, prompting scepticism over the government's likely

the deficit target next year

would amount to 5.8 per cent

of GDP, higher than this



Minister's measures likely to buoy markets

By Krishna Guha in Bombay

India's stock markets open today for the first full session of post-budget trading. They are likely to be in a buoyant mood following a 5 per cent rise in the BSE-30 index to 3,399 after the speech of Yashwant Sinha, the finance minister, on Sat-

Local investors were pleased with a package of measures to boost India's capital markets and rescue the country's biggest mutual fund, the crisis-hit US-64 scheme. The government will buy back privatisation shares with a market value of about Rs 28bn (\$660m) from US-64 at their book

value of Rs 48bn. The bail-out will be routed

ment bonds. It will help bridge the gap between US-64's assets and liabilities, which touched \$1bn last year, and enable the guaranteed return fund to move over to a system of marketbased pricing.

Mr Sinha also announced plans to cut long-term capital gains tax from 20 per cent to 10 per cent, and make dividends from equity mutual funds tax-free.

"I believe the mutual fund industry is poised for very rapid growth," said P.S. Subramanyam, chairman of state-owned Unit Trust of India, which manages the US-64 fund.

heartened by moves to facilitate corporate restructuring. through a new fund financed Mergers and acquisitions

by a special issue of govern- will be exempt from capital gains tax, while Mr Sinha promised a review of competition policy. Industry, however, was

less elated. Companies already under pressure from sluggish growth and low commodity prices will be hit by a 10 per cent surcharge on direct taxes. Personal tax rates for affluent middle class consumers and customs duties will also rise. "Clearly there is an implication for growth in profits and profitability," said Rob-

tor of Jardine Fleming India. Corporate tax rises will be partly alleviated by the decision to restore 100 per cent The market was further Modyat credit which enables companies to offset fully taxes on inputs against taxes on finished goods.

ha's first budget last year. This time he focused on the need to promote India's sunrise industries – software. pharmaceuticals and media - rather than bail out heavy

industries. Last year's ill-fated attempt to kick-start the economy through higher government expenditure on infrastructure gave way to a more sober effort to curtail the fiscal deficit. Mr Sinha attempted to simplify the ert Gibson, managing direcindirect tax regime.

"It is a lobby-proof budget," said R. Ravimohan, managing director of Cristl. the credit rating agency. Indian banks, which face a wave of bad debts, receive new tax concessions to encourage them to write off toms duty. There are new

change in tone from Mr Sin- ers will be able to offset such provisions against tax, subject to an annual limit.

Housing lenders such as Housing Development Finance Corporation will profit from an increase in tea is to be abolished. tax breaks for home loans, and moves to tighten foreclo-

India's pharmaceutical industry could be helped by plans to review the country's restrictive pricing regime for drugs, and moves to support indigenous research and development.

Mr Sinha is encouraging leum sector." foreign investment in pharmaceuticals by permitting 74 per cent foreign ownership. India's booming software sector will be allowed to import hardware free of cus-

Analysts welcomed a non-performing assets. Bank- benefits for export-oriented media companies.

The tobacco industry and the fast-moving consumer goods sector also gain from lower-than-expected rises in duties. The tax on packaged

"The main news in the budget is what did not happen." said Sangeev Mohta, director of HSBC Securities. "Successful industries were not punished with tax rises. there were no tax breaks for petrochemicals producers. and no moves to speed up liberalisation of the petro-

The vehicle manufacturing industry, already hit by the recession, suffered a fresh blow with the announcement of a new levy on diesel. the country's most popular

NEWS DIGEST

MALAYSIAN CONTROVERSY

Former police chief admits he beat Anwar

Malaysia's former police chief has admitted beating Anwar Ibrahim, the sacked deputy prime minister. The admission by Abdul Rahim Noor, made through his lawyer, will embarrass Malaysians, though not necessarily surprise them. Mr Abdul Rahim resigned when the authorities admitted, after an extended inquiry, that police were responsible for bruises and injuries suffered by Mr Anwar during his detention. But no single officer was named. Mahathir Mohamad, the prime minister, who was also home minister at the time and in charge of the police, initially suggested the injuries could have been self-inflicted.

Teh Poh Teik, Mr Abdul Rahim's lawyer, said that his client told him to admit to the assault and that he had "acted under grave provocation". Mr Anwar's treatment has put the spotlight on Malaysia and provoked a backlash against the administration of Dr Mahathir. Social activists said Malaysians would be watching closely to see how Mr Abdul Rahim is punished. Sheila McNulty, Kuala Lumpur

PHILIPPINE IMPASSE

Rebel talks plan founders

Plans for talks between Joseph Estrada, the Philippine president, and an Islamic rebel group broke down over the weekend. Mr Estrada had flown to the southern island of Mindanao for talks with leaders of the Moro Islamic Liberation Front (MILF) which has been fighting for the creation of an independent Islamic state for nearly 20 years. Army officials said plans for talks foundered because of disputes over the location for the meeting and the number

of troops allowed to accompany the MILF leaders. At an army base in the southern town of Cutabato, Mr Estrada said any future talks would have to be conducted on government terms and would not include discussion of an independent state. Tony Tassell, Cutabato, Mindanao

THAILAND ECONOMY

Trade surplus narrows

Thailand's trade surplus narrowed in January, a sign that exports - a key component of the country's economy may revive in the coming months. The trade surplus in January was \$816m compared with a surplus in December of \$1.23bn. Exports fell 4.8 per cent year-on-year compared with an 8.5 per cent decline a month earlier. Imports were also down 4.8 per cent year-on-year compared with a decline of 15.8 per cent in the previous month.

Economists say the bottoming-out of the crucial import figure - this is the first single-digit decline in more than a year - portends well for exports later this year as Thailand's exportable goods traditionally have a high import content. The central bank forecasts 4 per cent growth in exports this year. Imports must pick up and the trade defi-

cit must narrow for that target to be reached. Other figures released yesterday showed private investment, which in the past has accounted for about 30 per cent of gross domestic product, continues to collapse, falling 23.6 per cent in December compared with a 23.5 per cent decline in November. Commercial bank credit fell 13 per cent year-on-year in January compared with a decline of 9.6 per cent in December. Ted Bardacke, Bangkok

READING

The newspaper industry is committed to recycling. In 1997 waste paper accounted for over 40% of the fibre used to make UK newspapers.

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Proton to

join trend

Motor Industry Corresponden

Britain's reputation as the

testing ground for innova-

tive car retailing will be

reinforced as Proton joins

Opposition grows to government's stance on euro

Political Correspondent

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Section 1

Marie Comment

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THE SAY

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The government will today provide the first substantive evidence of its decision to speed up preparation for UK single currency, as opposition to the euro intensifies.

Lord Owen, the former Labour foreign secretary, is this morning launching New Europe, a heavyweight anti-"Britain will be better off

outside the single currency".

party, yesterday announced he was forming a committee of academics and economists who will examine the possible advantages of retaining

membership of the European trade and industry secretary, However Stephen Byers, will counter the anti-euro offensive by outlining how payments from a government fund to nurture busi-

nesses can be made in euros. The announcement is the euro grouping that claims first manifestation of prime minister Tony Blair's symbolically important state-William Hague, leader of ment last week about changthe opposition Conservative ing up a gear in preparation

by the public and private a pro-euro business group. sectors for the euro. The today. prime minister's official

spokesman said it was inevitable pro and anti groups would form around the euro. "As far as the government is concerned, we have got the right policy and will continue to promote it," he added, referring to the "prepare and decide" strategy.

The Department of Trade and Industry's planned enterprise fund will distribute £150m over three years to growing businesses. "This is part of moving up a gear," Mr Byers will tell Europe 21,

"I am looking into offering euro support under the enterprise fund. In fact, my general policy will be to enhance a scheme's effectiveness where there is sufficient demand," he will say, pointing out how grants for inward investments can already be paid in euros.

New Europe's advisory council includes Lord Healey, former Labour chancellor of the Exchequer, and Lord Prior, former Conservative employment minister.

Lord Owen said he would with Conservative Eurosceptics in the planned referendum on the single currency.

"What I worry about is the offer a euro facility to sort of fashionable view emerging that somehow you must join the euro," he said. Lord Healey said he believed the euro-zone would

> called the referendum expected shortly after the next general election. While not insisting that the UK should never join the

be prepared share a platform are political dangers of instability and even insurrection from having a currency strait-jacket imposed across the diverse 15 nations within the present EU, even more so for an enlarged

spective of 30 or more years. single currency zones have either broken up in the past collapse before Mr Blair or chosen to coalesce into one larger nation."

The battle will be joined with the pro-euro lobby next month when the European Movement outlines a numeuro, New Europe says in its ber of senior businesspeople,

politicians and trade union ists to argue for UK membership of the single currency. Kenneth Clarke, a former Conservative chancellor, and Lord Marshall, chairman of British Airways, may have

EU... Viewed over the perpean parliament elections, which could damage the Conservative party's chances in the poll.

for direct retailing of cars

prominent roles. Meanwhile, Mr Hague was hit by fresh difficulties over his hardline stance against the euro. Two former Conservative MEPs said they will run a list of pro-euro candidates in June's Euro-

> the growing band of manufacturers selling directly to The embattled Malaysian carmaker plans to sell vehicles directly to customers in the south Midlands,

according to the latest issue of Motor Trader, the specialist trade publication. The scheme covers large towns, including Leicester, Rugby and Warwick, where Proton has no dealers. It follows similar experiments by

Daihatsu, the Japanese minicar specialist. Such innovations by small or unfamiliar brands come against a background of bigger changes sweeping more

established marques. This year, Ford Motor Jardine group to bid for one of its biggest franchised UK dealers as part of a wider trend among carmakers to cut retailing and distribution

Proton hopes direct selling will boost UK sales sharply. The company sold almost 15,000 vehicles in Britain in 1992. However, registrations fell to about half that last year as new management withdrew from low margin sales to daily rental compa-

boost sales in the UK - its biggest export market - has grown because of collapsing demand in Malavsia. Domes-

will use sales staff from a company-owned Coventry dealership to offer a doorstep service to prospective buyers in neighbouring areas.

KPMG backs accounting standards plan

eccumiancy Correspondent

KPMG, the Big Five audit firm, has called on the UK to back Brussels' plan to international accounting standards on all listed companies within the European Union as a necessary first step towards global harmonisation

We are looking for global harmonisation and people must realise compromises will be inevitable," said Michael Hughes, a senior accounting partner at KPMG, which has championed the cause of UK entry

into the euro-zone. "We believe that the International Accounting Standards Committee is the appropriate platform - the UK cannot bury its head in the sand," said Mr Hughes. He said the firm backed EU harmonisation if it led to a global code. "If EU harmonisation brings the US to the table then it will be a price

worth paying." The firm's public backing for the LASC will be seen as one of the opening shots in what could be a heated debate in the UK about which standards should be used and which body should

ple of the Big Five firms staking out surprising positions on policy matters in an attempt to differentiate themselves and build a recognisable brand image.

The European Commission has advised EU finance ministers that its preferred option is for all listed companies to follow IASs. This would amount to a revolution in financial reporting in some countries - such as

Germany. In the UK the move would threaten the power of the UK Accounting Standards Board led by Sir David Tweedie. KPMG suggests UK companies would report under IASs but include a separate note of results compiled

using UK rules. Last week, the government's long-term review of company law began with a consultation document that asked for views on the

But the Company Law Review Steering Group warned any move towards IASs might undermine the ASB's global leadership role, lead to a gap between listed companies and the rest of business, and reintroduce abuses into UK

Great expectations: other countries, the UK is

the elderly in Britain looked at systems in several other countries before making its recommendations for the It will propose that, in the UK, nursing and personal

be funded through the tax system. If the proposals are adopted, social care - homedelivered meals, cleaning and similar services, along with the "hotel" costs of accommodation in residen-

The commission's recommendations are expected to add more than £5bn (\$8bn) to public spending in real terms over the next half century. But they would reduce the chances of people losing their homes to pay for care in their old age.

benefit the better off and might not be sustainable.

the government, which is likely today to give the majority report only the most cautious welcome.

elderly, both for care in their own homes and in residential and nursing homes.

two of the 12 commissioners is expected to argue that such a policy would chiefly

screen out those most likely

Attempts to use private insurance in partnership Medicaid to cover longer and care, have also encountered

ment that these partnership market test" with only 30,000 policies sold in four states

sell". It therefore concludes that for future options "it seems prudent to conclude

ance system, based on an extra 1.7 per cent payroll tax eovivalent

Early indications are that agrees with a recent judg- most people have opted for cash so that, initially, the schemes have "failed the service has proved less expensive than expected.

insurance is "probably the national health service such

Germany has recently built up a new social insurwith the state, by using that would rise to 2.4 per cent by about 2040. Clients more expensive spells of can take services direct, via a voucher, or a lower cash

riskiest product insurers can as Australia, New Zealand commission concludes.

duce charges for the social, as opposed to nursing or medical, elements of care. mark, provides free home

Only one country, Denhelp services as of right to all those assessed as needing it, with about a fifth of the elderly receiving the service.

The countries analysed have very different systems and levels of cost. But there appears little connection between the generosity of a system and how far governments and electors feel it is sustainable. The most popular system - Denmark's was also the one requiring the highest taxes.

sion notes, has a highly means-tested system that risks "pauperisation" since any assets above £2,000 can be claimed before care is delivered entirely free. Carers can be particularly hard hit as they may provide

time caring at home, with little support, and then, when they cannot continue, see assets that their spouse or parent wished to pass on "In effect, they pay twice: once by giving free care and

at home. seems only equitable," the















































UK learns from others on reform of care for the elderly Commission to urge care outside of hospital be funded by the taxpayer, says Nicholas Timmins n common with many

seeking to reform the way the elderly are cared for in a society with an increasingly greying" population. A royal commission examining the future of care for

UK, to be published today. care for those outside hospital should become free and

tial and nursing homes would remain means-tested.

But a minority report by

This view has impressed

The commission looked at how Australia, Denmark, Germany, New Zealand, and the US care for their old people. The US has most experience in attempting to use private insurance to meet the needs of the

However, only a minority of elderly people can afford good long-term care insurance. There are problems of moral hazard - where people insure when they believe they are very likely to claim and of adverse selection where companies attempt to

to claim. There is also a high lapse

rate. Not counting those who die before needing long-term care, about half of those taking out a policy let it lapse within five years and 75 per cent within 15 years.

The UK's commission

that public sources will continue to bear the larger portion of the risk of long-term care".

Japan and Luxembourg with a combined elderly pop- are considering social insurulation of 7.2m. For the ance models. But none of the industry, long-term care countries with a tax-funded

New Zealand, the commis-

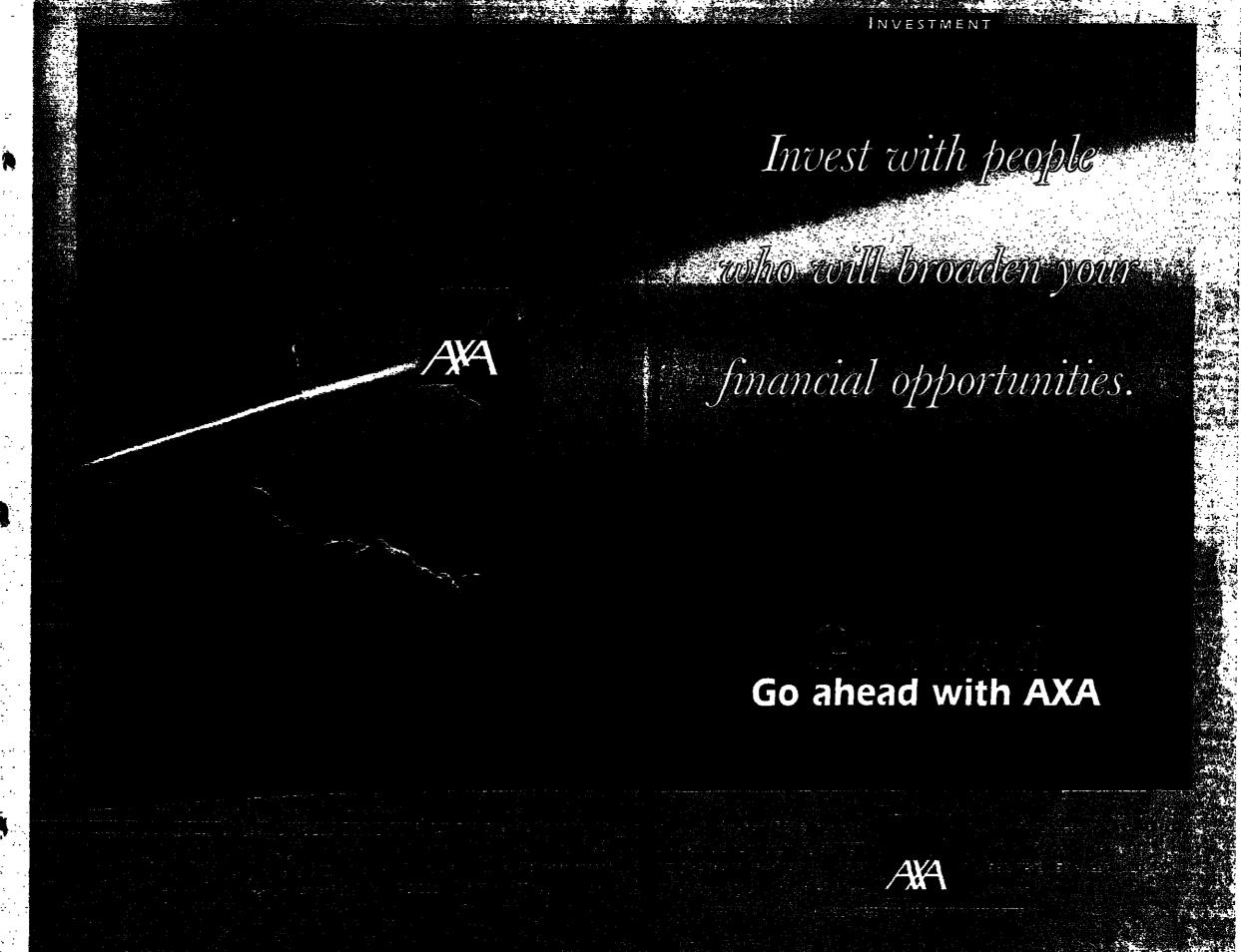
then again by loss of inheritance. Families lucky enough to avoid the need for care gain twice. Some balancing of the risk and the cost through public programmes

and Denmark, have chosen the social insurance route, preferring instead to intro-

Daewoo of South Korea and

Pressure on Proton to

tic sales fell 55 per cent to 87,000 units last year from almost 197,000 in 1997 because of economic turmoil Instead of franchising independent dealers, Proton



INSIDE @ TRACK

PROFILE FRANÇOIS ROUSSELY

Under the spotlight

The former civil servant is confident he can manage change at France's state-owned electricity group, write David Owen and Robert Graham

You have probably heard about "l'exception Fran-caise". But had you thought of managing it? This, it could be argued, is what François

A glance through Mr Rousse-Rousely about the probably heard about "ransposing the instrument into Franch law only recently started what may be a rather tortuous rapid and sweeping change be reassured by the emphasis Mr Roussely, a Socialist, repeatedly Roussely, chairman of Electricité de France (EdF), spends most of his professional life doing.

In an increasingly homogenised business world, there are few areas where France's often cussed insistence on going its own way is more apparent than in the sphere of electricity.

While others have shied away from or slowed down development of nuclear power, France, without adequate reserves of fossil fuels, has single-mindedly developed a network of 58 nuclear plants that accounts for about three quarters of the country's electricity production. While others have broken their electricity industries up, France retains - in EdF - an integrated and monolithic state-owned supplier.

This French exception has not escaped the European Union's directive obliging member states to begin opening their electricity markets, which took effect on February 19. But France intends to limit liberalisation to the minimum threshold fixed by the directive (about 26 per cent of the market for 1999), and the bill

Facts of life: born the Dordogne,

January 9 1945 – a year before

Nationale d'Administration 1976

succession of senior government

posts culminating in appointment

administration and public sector

as EdF chairman last July. He

summarises his career thus: "!

years of defence restructuring,

two years of defence industry

restructuring, prior to that trying

to modernise the police, or prior

to that trying to modernise the

local communities - all that is

the same idea. That's how to

structures. 36,000 communes,

modernise very broad state

think what I have done - six

industry. Attended elite Ecole

to 1978. Moved through

lisation of the electricity

ly's CV seems to provide further evidence of France's determination to brook as few changes as possible in what is regarded as a highly strategic industry. A career civil servant, with spells

'I felt the challenge for the company was a managerial one... rightly or wrongly, I felt I could do that'

at SNCF, the state-owned rail company, as well as the national police and the interior and defence ministries, he hardly seems the type to send Europe's biggest power supplier into a brave new liberalised world bristling with aggression.

When France Telecom was in a similar position, the then centreright government chose, in Michel Bon, a chairman whose career included a spell with

100,000 police officers . . . or

100.000 EdF agents. I'm not

saying it's the same thing, but

have tried to do is make big

Most difficult professional

months to return to defence

had a great time [at SNCF]

because practically every week

I'd spend two days in the field

surrounded by rail employees

explaining what modernisation

and the opening up of Europe

were. I like [spending time in the

public structures move and make

them in some way more open."

decision: leaving SNCF after six

ministry in wake of left's general

election victory in June 1997. "I

there are many common

Essential Guide to François Roussely

had become head of EdF, he would certainly have a lot more qualities than me for doing a certain number of things. And perhaps he would have been less well adapted to French social and political realities. lays on the company's traditiona public service ethic.

But after eight months in the

job, the EdF chairman, 54, bas

company and broken it into two

Renault – to head this new client

company in the competitive sec-

tor, Mr Roussely - who earned much respect for his role in help-

ing to restructure the French

defence industry in the first year of the Jospin government -

responds with typical level-hea-

Dramatically timed exit: defence

executives tell how plan to merge

Aerospatiale with Lagardère's

defence interests was hatched

over lunch on June 28. Roussely

said to have been informed the

following day. Two days later was named EdF chairman.

in Sweden. "The big paper

Obscure reading matter: The

plants, at a given moment, left

demonstrate first that they were

not permanently tied, and second

another electricity producer. They

did it for three years and then

came back saying it wasn't all

their historical producer, even though it was cheaper, simply to

to try out a relationship with

history of electricity deregulation

market environment.

"I felt the challenge for the company was a managerial one, a challenge of organisation, of remobilising the staff and also of shown a willingness to break the creating a calmer social climate mould. He has reorganised the Rightly or wrongly, I felt I could do that."

It is also apparent that Mr poles, introducing the idea of a customer division. He has Roussely feels an affinity with brought in an outsider - Loîc EdF by virtue of the fact that his Capéran, formerly of Fiat and father worked for the company. When the chance came for him to pole. "He was world commercial become chairman after the deparand marketing director for a ture of Edmond Alphandery, folproduct in one of the most comlowing a protracted and damagpetitive sectors in the world ing period of management the car industry." he says, in-fighting, this personal tie must have made it difficult for him to explaining the appointment. Mr Caperan's role will be almost as even consider refusing. It also important as Mr Roussely's own helps to confer on him a legitiin determining whether or not macy that might otherwise have EdF makes a success of the new taken time to huild un in an organisation that has tradition-Asked whether he himself has ally viewed outside management the right experience to manage a

He is clearly proud of having secured trade union agreement for a deal implementing a 35-hour work week, not just for its own sake - and because it will pave the way for the departure of 15,000 staff and the recruitment of 18,000 young people – but for the unifying effect he expects it to have. "If there had been no negotiations on working time, I would have found another pretext for concluding a deal with the five trade union organisa-tions," he says. "Why? Because you cannot engage a company of 100,000 people in changes of this scale without a minimum of

social agreement." True to his origins in the rugby heartlands of south-western France, he uses a rugby analogy - based on the Haka chanted by the New Zealand All Blacks before the start of international matches - to elucidate further. "It is the cry with which they say they are going to beat their adversary. A social agreement in a company of this size is a way of saying ... we have enough confidence in ourselves to go out and face the future. It is an act of

collective faith in our company." He is not afraid of competition and thinks much will have to change at EdF if it is to respond satisfactorily to even the limited competition it now faces. "We used to be an industrial company that produced electricity," he says. "Today, that is not enough: you have to sell it."

He advocates moving from the simple supply of kilowatt hours to broader contracts covering a range of related services. In spite of the company's extensive nuclear network, he sees a need for EdF to develop a position in gas, a fuel whose competitive position has improved markedly in recent years.

"I have always said we ought

as to have a multi-energy approach, like the rest of the world's electricity companies. That means being capable of having both nuclear- and gas-derived. electricity in the services we offer. It means that we must at Gaz de France, rather than competing with each other. Without that we would be the only [large] electricity company in the world

without a gas capability." With part of the group's home to follow our clients, we must be European," he says. "None of our big clients is purely national. All

implies we must have a policy of being present in Europe. His reign will be instructive.

whether a graduate of France's elite Ecole Nationale d'Administration can step into the spotlight least make common offers with after 30 years behind the scenes at the heart of the French state and successfully manage an industrial company in the cut-throat modern business world. But succeed or fail, it is hard to imagine that his eventual market for the first time up for successor as chairman of this grabs, export markets, particu- unique national institution will larly Europe, have assumed even not come from a more commergreater importance. "If we want cial background. Mr Rousselv may be among the last elite civil servants to make the once archetypically French career switch are European, if not global. That into industrial management.

S



LUCY KELLAWAY

The myth of the management crisis

Unrealistic expectations are fanning the belief that there is a shortage of people fit for top jobs

shortage of people fit to run the world's biggest companies. The CEO job market is painfully tight. According to John Quelch, head of the London Business School, there are not many executives who are up to the job. out there now which chief executives have to address...it is not easy finding the right people," he told Management Today.

I do not believe in this CEO crisis. Consider supply and demand. The number of top jobs is shrinking, as every mega-merger reduces the number of positions available. At the same time the pool of talent is surely getting larger. Think of all the people scrambling up the ladder in all those big companies.

Think of all the training, all the experience, all the striving. How can there be a famine at the top? I blame the "shortage" on our expectations. Because we ask the impossible from chief executives. it is not surprising that we can find so few people who fit the bill. If we expect the chief executive to deliver a stream of flawless rising earnings, to understand technology, to grasp

every world market, to be a brilliant team player and visionary, to be a great communicator and motivator, then it is not surprising that we find the pool of possible candidates is small.

It is in the interests of headhunters to fan these expectations and make us believe that there is a perfect person for the job somewhere, and that if

they comb hard enough they will find him. They have encouraged us to believe that any organisation with problem

needs an outsider to shake it up. This is the pattern: the "perfect" candidate is found for a lob. He is hyped, the company's share price rises and the honeymoon begins. Then the company runs into trouble, as it always will; the knee-jerk response is to get rid of the top person and the search for perfection begins again.

In fact, in all but the most feebly run companies, the good enough chief executive is right under their noses. As Profes John Hunt pointed out in the FT. it is hard to believe that among Barclays' 78,000 employees there was not someone good enough to

But the market does not see succession that way. Any company that dares to choose an inside candidate can expect a lukewarm response. Look at what happened to Cable and Wireless when it gave its top job to Graham Wallace. Safe but

own Lex column dismissed him. But who wants excitement? Surely in these risky corporate times excitement has little to recommend it. That someone is safe and knows something about the company strikes me as the best recommendation.

unexciting, was how our very

"Dear Paul", began the letter my colleague received the other day. "I understand that you are driving a range of operational

changes which we believe we can help you with." As it happens, the only thing my colleague drives is a Mitsubishi. But even if he were driving a range of operational

changes it is unlikely he would have been impressed by this pitch from a consultancy called Unipower Systems. "We expect to help the senior team release 15-20 per cent of the current portfolio of resources," the letter went on. What does that mean, I wonder? Fire one-fifth of the staff?

There is an awful lot of spurious "driving" going on in the world Consider the title of a pamphlet sent out by Boston Consulting Group: "How Deconstruction Drives De-averaging." According to the covering letter, this

INF SPECIFIED AN OUTSIDER FOR THE NEW CEO AND WE MEANT IT MALCOUM. STOP WASTING OUR TIME



pamphlet is so important that senior executives "will question some of their most deeply held assumptions about their business". That is, if they can understand a word of it. "The de-averaging of competitive advantage can ... undermine its traditional sources of advantage," the pamphlet says. I am going to have to take that one on trust.

At last: something sensible on the subject of knowledge management. Consultants KPMG have started warning clients of

the dangers of drowning in the

stuff. What seems to have happened is that companies have got so excited about the dawning of the knowledge age that they are hoarding knowledge, and now have so much they can never find the stuff that they

According to KPMG, the main task of the chief knowledge officer (I still blanch at the title) is as much to chuck it out as to amass it. That sounds like an exciting job to me. There is nothing more satisfying than sweeping the entire contents of my desk into the bin. Perhaps I've found my métier.

lucy.kelloway@FT.com



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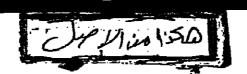
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Combined force for innovation

Madrid's IE and 20 participating schools have acted on their own advice, says **Delia Bradshaw**

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Madrid's Instituto de itself on developing some of Spain's brightest entrepreneurs. No surprise, then, that it has adopted much of its own innovative thinking in its latest venture, the international Entrepreneurship Centre.

IE's structure is characterised by a handful of interdisciplinary centres set up during the past three years, in areas such as family business, technology development for small businesses and corporate governance. This one is special because IE is working with other business schools to develop a site where budding entrepreneurs can bring their ideas and potential investors can decide whether to fund

Although the site will be set up in Madrid, the 20 participating schools will run the centre on a co-operative basis, says Ignacio de la Vega, a former IE academic who has been lured back by the school from the private sector to head the centre.

He believes there is real potential for a site which logs international projects he envisages students from

internationally on their ideas - which require less than \$1m of funding.

Mr de la Vega has already contacted 40 international business schools which specialise in entrepreneurship about joining the project. Empresa (IE) prides For the schools, membership will be free, and Mr de la Vega expects 15 schools to have signed up for the centre by the summer.

Fees for potential investors, who will gain electronic access to the site, will be set between \$7,000 and \$10,000. Mr de la Vega is expecting venture capital companies and business angels to take up the scheme.

The bulk of the finance for the project will come from a technology and a banking sponsor. So far, two companies have agreed to be joint technology sponsors: IBM and Airtel, the Spanish mobile phone company.

Mr de la Vega believes the centre will be a bonus for students from the participating schools, where MBAs are frequently required to develop a business plan. At IE, for example, the business plan forms part of the core course and is introduced within the first few weeks.

MBAs at IE develop 150 business plans a year as a result. Mr de la Vega believes 30 or 40 of those would have the international content that would make them eligible for posting on schools in Europe, the US the site. That number could



be multiplied by the number of participating schools.

The centre will change the kind of projects developed in business schools, believes Manuel Bermejo, director of the MBA programme at IE and director of entrepreneurship there. "The projects will be closer to market. The centre is a chance to open the minds of students and fac-

IE stands out from many would probably become larger business schools in entrepreneurs. All students at participatthe US or Europe, in that its students are particularly

ing schools will have access entrepreneurially minded. to the website and will be About one third of MBAs at able to work with their peers the school already come to develop the projects interfrom family businesses and nationally. in a recent survey 55 per

Once the centre is established, alumni from the schools will also be able access the projects and eventually Mr de la Vega envis-

ages that online courses in entrepreneurship will be run on the site with participants talking to an online tutor in entrepreneurship.

Mr de la Vega believes it will take only a year for the project to demonstrate its worth. "In one year, we'll have the key to its success: we will have enough good projects available for our

Stock answer to faculty appraisals

Staff appraisal has taken a new twist at the Katz School of Business at the University of Pittsburgh. The dean of the school, Frederick Winter is giving "stock options" to faculty and staff based on the school's performance.

The dean will track the value of the "stock" based on issues such as Katz's place in business school rankings, the quality of incoming students and the starting salaries of new MBA graduates.

The "stocks" issued car be cashed in by Katz employees and, while the stock is phantom, the cash

is very real.

To help entrepreneurs grow their businesses, rathe than merging or selling them, the Katz school has set up a centre offering courses and mentoring to companies with a turnover of between \$23m (£14m) and \$40m.

The Entrepreneurial Fellows Centre will run a 10-month programme that includes a presentation by Katz faculty and business leaders, participation in a peer advisory group, acces to a private web site and mentoring by seasoned entrepreneurs Katz. US, 412 648 1500

Strategy the IT way

The MIT Sloan school of management, and lese in Barcelona will be holding a one-week residential course, Strategic Management in the Information Age, in Barcelona from May 30.

Participants will learn how IT can be used to make more effective business decisions in areas such as strategic management and the redesigning of business

The course will use interactive learning methods, including simulations. MIT has also become the latest business school to agree a student exchange programme with lese. Other US schools with which lese has an agreement include Kellogg, Wharton, Chicago, Michigan and Columbia.

New options for arts graduates

Because respectable business schools require would-be MBAs to have management experience. university students with a degree in the arts and sciences have traditionally had few options if they then want to go straight on to convert to a course in management.

In the UK, Lancaster University has recressed the problem with a masters degree in management which is due to begin in October and will be open to new graduates from any

The first intake of students will be limited to 25 but the class is projected to grow to 50 within two years. Lancaster: www.lancs.ac.uk/

business school The University of Iowa has

lowa renames

renamed its business school the Henry B Tippie College of Business in recognition of \$30m donated by Mr Tippie over a number of years. He made his first donation of \$10m in 1957.

Mr Tippie, a 1949 graduate of the University of lowa College of Commerce and now 72 years old, holds directorships with a large number of industrial and service companies University of Iowa: www.biz.uiowa.edu

MA in Chinese management

Increasing opportunities for trade with China has spurred Middlesex University Business School in London to develop a masters degree in Chinese management.

The new MA will equip students with an understanding of China and Chinese business practices by the school's China Management Centre. Middlesex University Business School: UK, 181 362 5000

Lecture from CBI head

The director of the UK's CBI, Adair Turner, will delive the Association of MBA's annual McCormick lecture at London Business School on March 16. The lecture, and Employment, Europe's Prospects in a Global Economy, will cover issues such as the impact of the euro, the problems of high unemployment in Europe and the impact of globalisation on the

European economy. The Association of MBAs has again teamed up with Hobsons Publishing to provide an MBA scholarship this time for a student beginning a programme in 1999. The first winner of the scholarship was Elaine Soanes, now studying at Insead in Fontainebleau. Association of MBAs: v/ww.mba.org.uk

Harvard and LBS win case test

Harvard and London Business School were the ioint winners of the lese/ Arthur D. Little International MBA Case Competition, held at lese in Barcelona. The competition is the only one in Europe that brings together North American and European business schools.

Other schools in the competition were Columbia, Kellogg and Michigan from the US, the Ivey School from Canada and the Rotterdam School of Management from the Netherlands.

study was the Spanish bank A.B. Asesores. The students were judged on three criteria: a memo to the managing director, a presentation to the judges and their responses to avestions. Harvard www.hbs.edu LBS:www.lbs.ac.uk

The subject of the case

Information for News from Campus should be sent to Della Bradshaw. The Financial Times, One Southwark Bridge, London SE1 9HL. Tel. 44 171 873 4673 Fax 44 171 873 3950

BUSINESS EDUCATION INTERNET

L-plates for IT students

The OU course is a groundbreaker, says Stephen McGookin

The Open University speed at which the quota this week launched had been filled. To its first course to be taught entirely via the inter-

The university bas long used computer networks and together far-flung students

The new course, "You, Your Computer and the Net", or number T171, relies entirely on online tuition. with no personal contact or residential schools.

across a range of subjects.

All 2,000 students who have signed up will be taught by means of a dedicated web site. They will use support materials on CD-Rom as well as specially written OU booklets.

Participants will have e-mail access to an individual tutor and will work in online teams for joint assignments, as is common with existing OU courses that rely on "supported distance learning".

The course is also groundbreaking in that it is aimed at students who have little or no technical knowledge of the internet and in that there are no academic pre-

requisites for taking it. John Naughton, senior lec turer in systems at the OU. says demand for the course has been overwhelming. Staff were staggered by the

Five hundred students were admitted to the initial test presentation.

Naughton, whose book A Brief History of the Future bulletin boards to bring Origins and Destiny of the Internet will be published this summer, believes the course will equip new students with the skills needed

for further study. The course will carry 30 credit points, in three 10point modules running the gamut of instruction from basic PC operating principles to publishing web pages and organising online conferencing, it will lead to an existing course - "Computing: an Object-Orientated

Approach". The OU says the new course is aimed at those "who feel apprehensive about the apparently inexo rable march of the new com munications technologies". Which sounds like it could be pretty well all of us.

at t171.open.ac.uk/pres while the OU inquiry line is 01908

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INTERVIEW CAROLYN WOO OF THE UNIVERSITY OF NOTRE DAME

cent were adamant that they

wanted to be their own

bosses. A further 43 per cent

of the students said they

Something out of the ordinary

George Bickerstaffe on ambitious plans to get the university's MBA programme towards the top of the rankings

Dame in Elinois in the US prepare for a job." appointed a new dean in 1997 it came up with an unusual cialist in strategy, entrepreneurship and technology

born in Hong Kong. "I am very different to the typical Notre Dame profile," says Prof Woo. "I am not an alumnus; I'm not a man and I'm not a Caucasian." But Notre Dame needed something out of the ordinary (and in fact it courted Prof in two sections. Woo assiduously during

most of the 1990s). Although the college's undergraduate and postgraduate accounting programmes are highly rated, its MBA programme languishes in the lower reaches of business school rankings. The aim is to get the programme within the top 25 within five

"Notre Dame's MBA programme is about 30 years old but up to now has not had a culture of strongly promoting and marketing itself," says Prof Woo. "It's a sort of a gracious mentality that education is not for promotion. But the market place has changed in the past 10 years. Until about two years ago we didn't have a formal

Business at the Unithe notion that education is about \$1.4m fellowship versity of Notre to prepare your mind, not to money.

five-point plan to achieve international, mainly from values and a strong sense of choice: Carolyn Woo, a spe- her goal, starting with Asia, Latin America and stewardship in addition to improving the marketing of Europe. "We try to keep it being very rigorous, the programme and, cru- about that level, though we "I am concerned cially, increasing the size of could go higher if we are training young people the programme and the qual- wanted," says Prof Woo, and preparing them to sucity of students admitted.

has 120 students in the main cent of our students are that three years or even one two-year programme tup non-US mainstream." Prof year after graduation stufrom 90 in 1997) and there are plans to expand it to 130 riculum, particularly the \$150,000, carrying wonderful

The college has a significant war chest in the form of entrepreneurship, organisafellowships (scholarships at the postgraduate level) to attract the brightest and the



When the College of MBA, again stemming from best. Last year it handed out

"But about 15 per cent are The 1998 incoming class also minorities, so 45 per Woo is also boosting the curprovision of new elective courses in areas such as

> ing and finance. "The third area," says Prof Woo. "is placement. We are building a new placement centre to be ready by this to improve is the number of offers per student and the

tional consulting, account-

salaries per students. "The next is our really tightening that process to make sure we render re-engineering that has been

The fifth area is culture. lege has a strong sense of can handle the seductions the Catholic religion and a that come with it."

commitment to the teaching and practice of business ethics. Prof Woo, herself a Catholic, comments: "One reason I came to Notre Dame was because I wanted to be part Currently about 30 per of an MBA programme that Prof Woo has adopted a cent of MBA students are had a very strong sense of 'i am concerned that

ceed beyond their wildest imagining. It is not unusual dents start making \$100,000titles and wonderful responsibilities. But I don't want to prepare people who are casual and dismissive about decision making. I don't want them to be arrogant."

The teaching of ethics is a tradition at Notre Dame. There are four professors summer. What we are trying whose main area of research and teaching is ethics and about 15 others who do secondary work in this area. "But," says Prof Woo, "it's day-to-day operations. We're about more than ethics, or ethics as a course. It's more a sense of who we are, what excellent services and we do are our values, and what are it in a way that is efficient. the roots from which we go So there is a lot of process into the world to do this work. There's nothing wrong with an MBA or a business career or business success Like the university, the col- but it's about whether you





SCIENCE SPACE RESEARCH

You too can discover your own asteroid

Leonard David reports on a fresh breed of cosmic explorer already snapping at the heels of the professional astronomer

Lurking in the solar make their own space dis-system outback coveries, from locating a Joseph Stewart, NSF pro-beyond Pluto, in an never-before seen asteroid or gram director. area known as the Kuiper Belt, is an asteroid some 160km in diameter, it would be only another faraway and move dust - on Mars. object, we're it not for the unusual way it was discovered.

No world-famous astronomers were involved: instead. the asteroid was found by a group of US high school stu-dents searching through telescope images on the California-based Lawrence Berkeley Lab's computer

The students are an example of a new breed of space explorer that is in the making. No longer are cosmic findings the sole preserve of professional scientists. Enter the web browsing space explorer - the internatif.

Thanks to the power of the internet, and easy access to Blanco Telescope in Chile to the latest scientific informa make the asteroid discovery. tion, students, hobbyists and dabblers of all sorts can opportunity to operate like

finding the most distant quasar, to spotting dust devils mini-tornadoes that pick up · It is a trend with which

professional scientists are having to come to terms, but most realise that the amateurs can be used as a resource from which science will benefit. That is because in the past, there have simply not been enough eyes available to inspect all the useful images that astronomers collect.

The student search of computer images was part of the US National Science Foundation's Hands-On Universe programme. Using special software and visual inspection, students trawled through images taken from the foundation's four-metre Blanco Telescope in Chile to

"These students had the

Lurking in the solar make their own space dis-real astronomers," says

Dr Stewart believes that public access to technology, coupled with the exciting science that can be pursued using that technology, is fos-

Students and dabblers of all sorts can make their own space discoveries

tering the promise of yet more non-professional scientific discoveries. "We are just seeing the tip of the iceberg," he says. But how will scientists

view increasing numbers of internet Interlopers on their intellectual tur? Surely the prospects of a high school student or a retired welder upsetting an astronomer's 36-year pursuit of say, gravity waves, would be a little unnerving. "I think it's around the landing site. The going to take some getting whirlwinds are now viewed used to, but in some respects it has already been happening," Dr Stewart says.

For instance, amateur astronomers have found numbers of comets in recent decades, and the professionals welcome the extra help. There are some scientist groups, however, that aren't used to doing that, and I think they will learn to get used to it in a hurry," says the internet is marvellous. It Dr Stewart.

and Space Administration (Nasa), meanwhile, is considpublic participation in space missions. Funds have been earmarked to establish early effectively be a high-capacity Earth-Mars internet connection. "This would be a communications link so capable home could access information coming down from ence feturn." says Carl Plicher, Nasa science director for solar system explora-

Experience suggests there will be plenty of amateurs ready to tune in. In the first month after Nasa's Mars Pathfinder mission had landed on the red planet in July 1997, and dispatched its software packages that can Solourner rover, nearly 556m rapidly compare and con-"hits" were recorded at trast disparate caches of internet sites set up to give a data found on the internet, worldwide audience a and an increasing public close-up view of work in hunger to be involved.

One of those most eager to data was Stephen Metzger, a click away.

doctoral student of the University of Nevada at Reno. He had originally been involved in a proposal to search for dust devils on

"Nasa didn't think highly enough of our idea to fund us," says Jim Carr, co-writer of the proposal and a professor of geological sciences at the university. Undaunted, Mr Metzger downloaded a couple of hundred Mars images from a Pathfinder public internet site into his modestly-powered home computer, equipped with 1980s software.

By converting the images and using various colour modes, Mr Metzger found what he was looking for and what Pathfinder scientists had missed. There on his computer screen was a plume of swirling dust blowing across the Martian terrain. "I just sort of quietly stared at it for a few seconds. Then I pointed to the screen and said: 'You know. that's the way they are sup-

recalls. Further study of Pathfinder images has shown numbers of dust devils as a possible means by which dust is lifted into the Martian atmosphere, and they are probably connected with the planet's dust cycles.

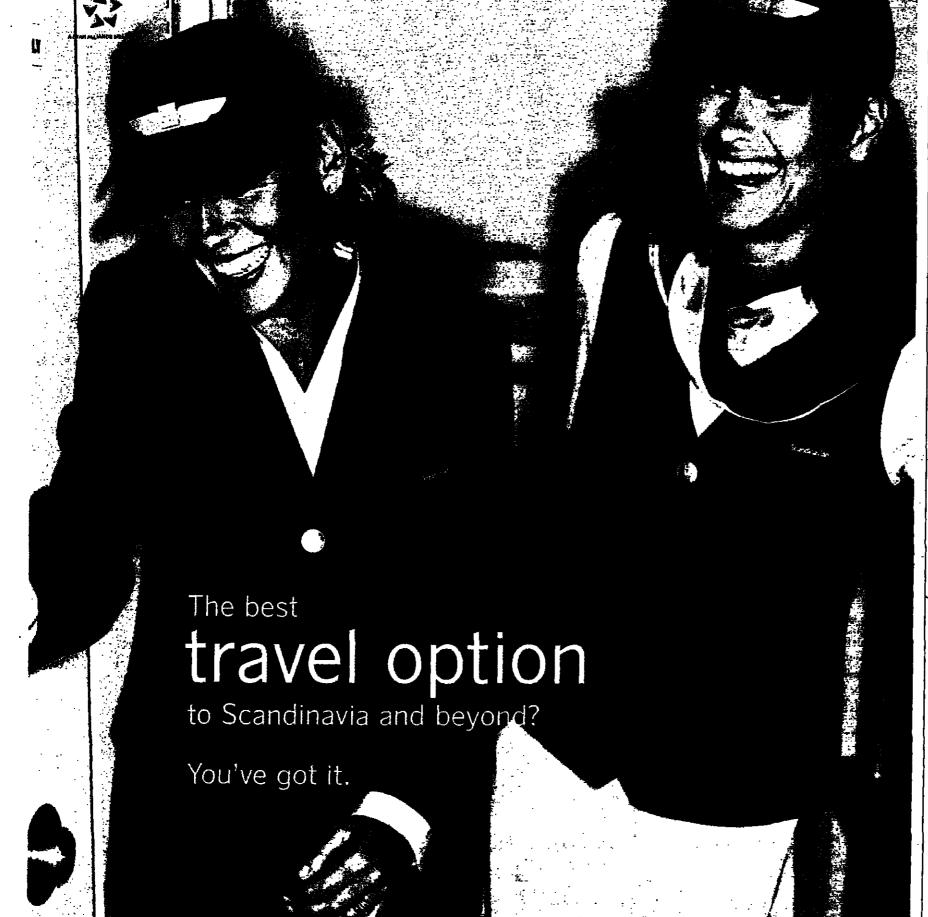
posed to look." Mr Metzger

As they were outsiders to the exclusive club of Nasafunded space scientists. Dr Carr's and Mr Metzger's dust devil revelation was all the ready access to data through leads to more open exchange The National Aeronautics of ideas and will keep every one on their toes. Everybody that has got the capability ering other ways to increase and the interest can be a player, instead of just an

Daniel Barstow, director of next century what would the Center for Earth and Space Science Education in Cambridge, Massachusetts. points out that it is not in space exploration alone that that people sitting in their amateurs may help. The earth itself is under intensive scrutiny as dozens of Mars...allowing for tremen- satellites churn out huge dous public participation, as amounts of environmental flood of information. Scientists will be completely overwhelmed with the tremen-

dous overload of data." The future is not hard to see: ever more powerful bome computers that create three-dimensional and virtual reality imagery, smarter

For the new internauts. "downloading discovery" tap into Mars Pathfinder will be only a mouse



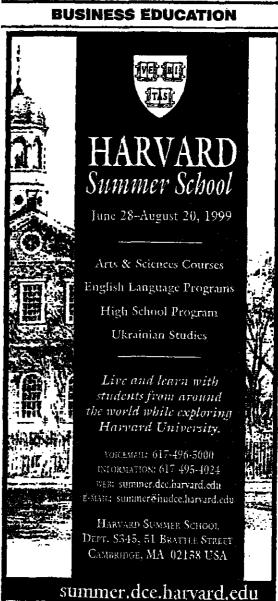
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BUSINESS TRAVEL INCENTIVE SCHEMES

Less mileage in cheaper tickets

As cost-conscious companies cut expenses it pays points junkies to shop around, writes Gillian Upton

Mileage junkies business travellers who go out of their way to earn points from incentive travel schemes - are finding their lifestyle under threat.

Cost-conscious companies are cutting back on full-fare business class airline tickets in favour of promotional tickets or "consolidated" business class tickets.

The big drawback for the traveller is that these cheaper tickets common in North America where come with restrictions including. in some cases, no mileage points. Being made to fly in economy class can be just as bad: reward levels are much lower than in business class, and many airlines restrict incentive points to full-fare tickets. "The policy of awarding miles in economy has now become extremely important and particularly for those airlines which award miles on all fares." says Ian Dockreay, director of the Aviation and Travel Consultancy

Rules vary and, as any mileage junkie knows, it pays to shop around. Abuse of company travel rules - for example, by booking with a non-approved airline - is a familiar trick.

Airways' Air Miles only if they fly on a full-fare economy class ticket. But Lufthansa and SAS allow travellers to earn Miles & More and EuroBonus points, respectively, on all special fares, such as Apex, Pex and Super Pex. No airline allows earning benefits on consolidated fares.

Frequent flyer club membership goes beyond credits towards

free flights. Access to airport lounges, the possibility of being upgraded to a better seat, and being given priority on overbooked flights are among the benefits for the most valued members of incentive schemes.

"Once you move to the upper tier you get into service-related benefits and the prestige that goes with them, says Tony Clarke, global business development director of ICLP, one of the leading loyalty companies specialising in travel. "That's when travellers take extra trips to retain their platinum and gold cards, particularly when renewal time comes around."

The mileage junkie is most the average frequent flyer belongs to 4.9 incentive programmes. According to industry estimates, the desire to boost mileage is a factor in more than a quarter of all trips.

The growth of incentive schemes since the early 1980s has also spawned an illegal trade in unused points - up to half of all those issued. In Europe, membership of fre-

quent flyer programmes is much lower, reflecting their spread geographically rather than any lack of interest. British flyers are learning the ropes fast, however,

'Travellers come up with all sorts of Travellers can collect British excuses so they can fly on their favoured carrier. Some are really good at it'

and belong to 3.7 programmes on

"Air miles are an emotive issue. Like company cars, it's a very personal thing." says director of Amersham Travel, a

spread in companies with loose travel policies, or those yet to start cutting travel costs.

UK travel management company.

There is uproar when a traveller

is downgraded. Travellers come

up with all sorts of excuses so

they can fly on their favoured

carrier. Some are really good at

Abuse tends to be more wide-

"In the oil business, where crude is down to \$10 a barrel, Amanda Pennell, operations travellers are not getting any options," says Aberdeen-based

Gary Hance of Seaforths Travel. "Travel has either been cancelled or it's now on the cheapest consolidated fare with little flexibil-

ity and no mileage benefits."

Frequent flyers should not despair, however. Several airline alliances will offer increased opportunity for "earning and burning" as they plan to merge their incentive programmes, despite hints from Brussels that such a move would be anticompetitive. Star Alliance is leading the

way. A top level member of United Airlines' Mileage Plus programme (the 100,000 mile flyer) will be recognised on any partner airline (Thai, Lufthansa, Air Canada, Varig and SAS - plus Air New Zealand, Ansett and ANA from later this year).

The benefits to airlines of these

schemes are well documented. Although the original idea was to fill empty seats, today they deliver customer loyalty, instant rewards when things go wrong

and a significant revenue stream. "They're all about yield management and relationship marketing," says Mr Clarke of ICLP. "The information gained on travellers' purchasing habits allows the airline to build customer profiles. They can then deliver the right message to the right person at the right time."

British Airways, KLM, Lufthansa and SAS all have sophisticated relationship marketing departments. BA, for example, was able to identify and mail those customers flying only one-way across the Atlantic, offering them an incentive to buy



First non-gaming hotel in Las Vegas has quick net link

Las Vegas's first non-gaming hotel, the Four Seasons, opens tomorrow. Each room has been equipped with high-speed internet/data access. Rooms also have two-line digital phones and fax machines. Laptops can be

Air check-in by car

Virgin Atlantic opens a drive-through check-in at Johannesburg's Jan Smuts international airport this summer Travellers flying in Upper Class (business class) will be chauffeur-driven to the airport and complete all check-in formalities in their car.

Business discounts

SRS World Hotels has introduced preferential corporate hotel rates or companies booking between 1,000 and 20,000 rooms a year. Discounts vary between 5 per cent to 35 per cent in the Volume Corporate Rate Programme.

Heathrow in touch

London's Heathrow airport is installing 50 interactive touchscreen stations. The stations, known as WAMworlds, will offer information about the airport terminals and online information on anything from share prices and weather conditions to sports results. They will also give access to the web and e-mail. WAMworlds will also be installed in Gatwick and Stansted airports.

Belgian bargains

Sabena has cut fares from 11 UK airports to 30 destinations in continental Europe, as long as you fly before March 28. The deals, in economy class, are £155 from four London airports (Heathrow, Gatwick, Stansted and London City) and £175 from the seven regional airports

served by the Belgian carrier. The points include Paris, Milan, Hamburg, Stuttgart, Düsseldorf, Berlin and Gothenburg.

Frankfurt service

Ryanair is launching a twice-daily service between London's Stansted airport and Frankfurt on April 22, Flights will depart from London at 7am and 7.10pm and leave Frankfurt at 9.45am and 9.55pm. The fare is £69 return.

Roman Delta

Delta has won US government approval to launch daily non-stop flights between Atlanta and Rome, writes Roger Bray. The airline plans to start flying the route on June 1. This summer it will also start operating from Atlanta to Athens, Barcelona and Istanbul. Continental Airlines has secured the take off and landing times it needs at London Gatwick to launch a daily service from Cleveland. Flights will start on June 15.

Pricey Paris

The recent meteoric rise in European business class air fares has tailed off - but try telling that to an Austrian with frequent business commitments in Paris. Analysis by American Express shows that between the final quarter of 1997 and the equivalent period last year the average price for a business cabin or full economy seat between Vienna and the French capital rose by 35 per cent.

Hilton kiosks

Hilton is installing automated business kiosks at 50 hotels in the US. Supplied by Business Anywhere, they provide touch screen, multilingual facilities around the clock. Other features include a computer with zip drive and e-mail and internet access, and a high-volume printer.

Gillian Upton

BUSINESS EDUCATION



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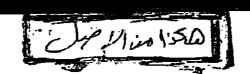
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THE ARTS

HELSINKI A comprehensive survey of homas Adès's music is the highlight of Helsinki's week-long contemporary music festival, starting at Finlandia Hall on Friday. The Sibelius Academy will stage Powder Her Face, and Adès himself will give a piano

STOCKHOLM The Moderna Museet is

presenting the first full-scale retrospective in Scandinavia of Aleksandr Rodchenko (right), one of the leaders of the postrevolutionary avant-garde in Russia. The show opens on Saturday and runs until May.

The Musée d'Orsay has organised a "Saison anglaise"



embracing art, music, Photography and film from across the English Channel. An exhibition devoted to Burne-Jones and the English pre-Raphaelite movement opens

today, and the first of 10 concerts featuring British ensembles and recitalists takes place on Thursday, A Hitchcock season follows in late May.

NEW YORK

The opening weekend of New York City Opera's Spring seasor at Lincoln Center is Jack Beeson's Lizzie Borden, based on the true-life story of a New England woman who was cused of hacking her fathe and stepmother to death with an axe. Premiered in 1965, the opera was revived at Glimmerolass three years ago. City Opera is restaging that production with Phyllis Pancella in the title role. The first night is on Saturday More than 170 of Picasso's ceramic works (right), created in

the south of France between

1947 and 1962, will be on view at | LONDON the Metropolitan Museum from On Saturday and Sunday, the Wednesday until early June Seen last year at London's Roval Academy, this is the first majo show to concentrat exclusively ON Picasso's ceramics. Irving Berlin's 1947 musical Annie Get

Your Gun has Company is been updated by ioined by Irek Peter Stone for this viukhamedov in a revival directed by Graciela brand new version of the Daniele and stamng Bernadette Don Juan legend. Should not be Peters, It opens at Broadway's missed. New score, new design a new role for the magnificent Marquis Theatre on Thursday.

Mukhamedov (for whom Brandstruo has already made a fine Othello). Danish composer South Bank Centre celebrates Kim Helveg provides an original the 250th anniversary

of the birth of

Goethe with

lectures and

At Sadler's

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excellent Arc

The National Gallery has organised the first-ever exhibition of the work of 17th century Italian paInter Orzio Gentileschi. It includes several of his monumental Old Testament masterpieces, as well as examples of his work as court painter to Charles I in London. The show opens on Wednesday, and will move to Bilbao in June and Madrid in September.

Theima Hott's new production of Macbeth arrives in London after a short season in Bath. Directed by John Crowley, the play stars Rutus Sewell and Sally Dexter (right). It opens at the Queen's Theatre on Wednesday





A good advert for a bad practice

Nigel Andrews praises former UK film censor James Ferman for reducing nannyism to a minimum in 24 years of making cuts

British Academy of Film and Television Arts was agog. We were there for "An evening with James Ferman" in which the recently retired British film censor would tell all - with clips.

We knew what we expected to see: blood pouring down the crumbs, is better than nothing. screen, the psyches of Michael Wish Winner and Tobe Teras Chainsaw Hooper exposed lividly to view, and a stream of naked people doing naughty things be practised at all. in footage still bearing the scissormarks of a Soho Square office.

What we got was both more and less. Mr Ferman proved an affable host, dark-suited at a lectern where he briefly lamented the lack of a mittee be deemed incorruptible is 90 per cent of piano (what else goes with "An

TE.

evening with . . . "?)
Then he dived into Jaws, his baptismal furor, before navigating us through a decade-by-decade account of outstanding rumpuses, from Emmanuelle to Cliffhanger. from the video nasties to Ai No Corrida, Oshima's famous sex-with-

art shocker. Oddly the decades ran out, or seemed to, before the 1990s. So we had nothing on Cronenberg and Stone, nothing on Child's Play 2 (the supposed trigger-video in the Jamie Bulger murder case), and nothing on Henry: Portrait Of A Serial Killer. There was also nothing on Crash, the certification of

have heard Mr Ferman's reasons for a video ban lasting 25 years, though a reprieve is now in sight. But we must not carp. Censors fessing up at all are a rare phenomenon: half a loaf, even a plate of

And one cannot imagine a defending and illustrating a practice that many of us doubt should

Why should adults have their minds cordoned? Why should parents' failure to police caildren's viewing result in restrictions for all? Why should one man or comwhen the rest of us apparently need round-the-clock vigilance?

Mr Ferman's feat over 24 years has been to reduce nannyism to a minimum. The proportion of censor-cut films, he was proud to boast, has fallen from 40 per cent to about 4. And with problem films. classification upwards has replaced scissorwork, so that an iffy 15 becomes an 18 or an R rather than becoming a butchered mess.

He has also, unlike some censors, been willing to consult the yellow pages under E for experts. With Jaurs, he pulled in a child psychiatrist and said: "Won't it give children nightmares?"

The shrink said: "What makes which created tabloid hysteria in you think that nightmares are bad

The Princess Anne Theatre at the 1997. As for that grandaddy pariah, for children? Nightmares are bad The Exorcist, one would love to for parents. For children they are nature's way of working out problems and tensions." Mr Ferman summoned two more child psychiatrists who said the same. So, essennally, did Bruno Bettelheim in his great book on fairy tales, a Ferman

Any censor lasting a generation has to deal with hysteria that public protest

censorship lobby proclaiming the vulnerable purity of youngsters. Children are the creatures, remember, that bully fellow creatures in ways more arbitrary than any adult - do none of us recall our own childhoods? - and whose fascination with naughty things done to and by the human body begins at least five years before puberty. Yet we still treat children

as fragile creatures. Any censor who lasts a generation has to deal with the institutionalised hysteria that is 90 per cent of public protest over films.

So Mr Ferman patiently explained why The Life Of Brian was, literally and legally, not blasphemous: why he had tried not to be excessive in cutting Robin Hood. Prince Of Thieves (hand-lopping scene) and Cliffhanger thero's crony used as football).

He told us why Jurassic Park Halleluiah, say I. Not the least and The Lost World could be criminal acts during filmmaking and understood them. It is a to it in Martin Pakledinaz. psychiatrists both pointed out that children know dinosaurs are unreal); why video nasties were a brief, freak phenomenon representing a backlash against 70s feminism: why a scene in Ai No Corrida in which the heroine playfully pulls on a small boy's penis was optically changed so that it was clear what she was doing without our actually seeing it (it's a vital piece, Mr Ferman argued, in her psycho-portrait); and why the sex in Emmanuelle was uncorrupting how could it not be with all that soft focus and consensuality? -

save for one near-rape scene. "Rape with a positive outcome" became Soho Square jargon for scenes of ravishment that are immediately followed by the heroine, say, happily riding a bike through spring countryside (see, and we did, Emmanuelle In Tokyo).

If I believed in censorship at all. I too would draw the line at this, as at the sadomasochistic whipping scenes we saw from L'Histoire d'O. never passed for Britain, or the

sadistic (dis)grace-notes inserted by Michael Winner into a rape scene in Death Wish 2.

Pushed to the mast and told to nail my colours to it, however, i would have to say I believe in censorship in only two areas: national security (don't tell the enemy at the end of the first act, we where our spies and ships are), and material and rrest mak ers if any movie commits an actual

murder, rape or atrocity). As for those vulnerable children their viewing is not the business of) a state or industry monitor, it is that of parents, guardians or schoolteachers. A detailed classification system should be encouraged, even more detailed in my view than the present one.

If that is considered insufficient, parents should lock up the video machine, embargo children's trips to the video store or lay down any other tough-love fiat deemed appropriate.

What no grown-up should do is condone or connive at the appointment of a watchdog, singular or collective, to police the dreams and nightmares of a culture that should remain vital, responsive and empowered to imagine, and whose pride in those attributes is what differentiates a free world from a totalitarian one. That James Ferman is a good advertisement for a bad practice does not make the practice any better.

A dream of an evening

BALLET

CLEMENT CRISP A Midsummer Night's Dream Sadier's Wells

Pacific Northwest Ballet ended its Sadler's Wells season with the staging of Balanchine's A Midsummer Night's Dream that so endeared the company to us at last year's Edinburgh Festival. It is a marvellous ballet, and once again was excellently well done by the

troupe. What I love about it is Balanchine's clear feeling for Shakespeare - it is, in its sense of magic, more touching than the Ashton version. if one must make the comparison - and also Balanchine's unerring way with narrative. He tells the tale in the first act, and makes the second a danced celebration of love fulfilled. (In what seems one vertiginous minute in Act 1, the choreography compresses the loving identities of Oberon and Titania, Theseus and Hippolyta, and the crossed lovers, and brings on the rude mechanicals - no mean feat, especially when one is not left feeling breathless).

It is allusive, too, in handling: we have but to see Helena cross the stage to sense her sorrows; and when the emotional knots unravel have known the characters the Dream has a real charm perhaps relates back to Bal-sohn score was admirably anchine's Petersburg inheri- played by an unnamed tance - that, like Petipa in his version, there are child shaw.

performers as fairies and insects: the use of these chil. dren as fireflies in the last ecstatic moments of the niece is one of the most felicitous touches in a ballet uniformly felicitous in sentiment as in step.

This Dream is, as I reported from Edinburgh, an abiding joy, and it is joyously danced. Most of the casting is as we saw last summer, Patricia Barker. with her big, luscious style, is a wonderful Titania love the way she can hold a pose in the air, sustain its dynamic, show its continuing life. The lovers - Julia Tobiason and Lisa Apple, Ross Yearsley and Jeffrey Stanton - are by turns ardent and angry, and delightful. Seth Belliston I found even more mercurial as Puck, airy in jump as in wit, and in the yielding pas de deux of the second act, Louise Nadeau, with her pretty feet and her musical fluent style, is a worthy inheritor of a role made for the exquisite Violette Verdy. who was music incarnate.

All in all, the staging is a triumph for the company. and it is imaginatively set and amusingly dressed (roses all the way!). Pacific Northwest's opening programme suggested that the troupe shopped for design at - le stule commissar was everywhere apparent - but

orchestra under Stewart Ker-

A wonderful Titania: Patricia Barker

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA Netherlands Opera, Het Muziektheater Tel: 31-20-551 8911 Die Zauberflöte: by Mozart. Conducted by Hartmut Haenchen in a revival of Pierre Audi's staging co-directed by Saskia Boddeke; Mar 5

BERLIN OPERA Deutsche Oper Tel: 49-30-34384-01 Rise and Fall of the City of Mahagonny: by Kurt Weill, libretto by Brecht. New staging by Gunter Krämer, conducted by Lawrence Foster, with designs by Gottfried Pitz and Isabel Ines Glathar, Mar 4

EDINBURGH EXHIBITION Scottish National Portrait Tel: 44-131-624 6200 John Ruskin: exhibition exploring the influence of the Victorian

critic and theorist. Includes drawings, watercolours and photographs; to Mar 7

GLASGOW OPERA Scottish Opera, Theatre Royal Tel: 44-141-332 9000 The Magic Fountain: by Delius. Conducted by Richard Armstrong in a new staging by Aidan Lang, with designs by Ashley Martin-Davis; Mar 4, 6

LONDON DANÇE Sadier's Wells Tel: 44-171-863 8000 Arc Dance Company: The Return of Don Juan, in a new staging by Kim Brandstrup, starring Irek Mukhamedov. With an original score by Kim Helweg; Mar 1,

English National Opera, London Coliseum Tel: 44-171-632 8300 Parsifal: by Wagner, Conducted by Mark Elder in a new staging by Nikolaus Lehnhoff, with sets by Raimund Bauer and costumes by Andrea Schmidt-Futterer. Cast includes Kim Begley and Jonathan Summers; Mar 3, 6

MUNICH CONCERTS Philharmonie Gasteig Tel: 49-89-5481 8181 Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by R. Strauss

and Couperin; Mar 4, 5 Beethoven Academie: conducted by Christopher Hogwood in works by Mozart **PARIS** and Haydn, with piano soloist

Stefan Vladar, Mar 3 Sinfonía Varsovia: conducted by Yehudi Menuhin in works by Mendelssohn-Bartholdy and J. Brahms: Mar 2

DANCE Philharmonie Gasteig Tel: 49-89-5481 8181 Bolshoi Ballet: mixed programme of Russian works; Mar 1

NEW YORK EXHIBITION Metropolitan Museum of Art Tel: 1-212-879 5500 www.metmuseum.org

Picasso: Painter and Sculptor in Clay. Seen last year at London's Royal Academy, this show brings together 175 ceramic works by Picasso, mostly created between 1947 and 1962; from Mar 3 to

OPERA New York City Opera, New York State Theater Tel: 1-212-870 5570 www.nycopera.com Lizzie Borden: by Jack Beeson. New production

conducted by George Manahan in a staging by Rhoda Levine, with Phyllis Pancella in the title role: Mar 6 Madama Butterfly: by Puccini. Conducted by Guido Johannes Rumstadt in a staging by Mark Lamos first seen in November, with sets by Michael Yeargan

and costumes by Constance Hoffman; Mar 7

EXHIBITIONS Musée d'Orsay Tel: 33-1-4049 4814 www.Musee-Orsay.fr Edward Burne-Jones: major retrospective of the British pre-Raphaelite painter, which

forms the mainstay of the museum's 'saison anglais'; from Mar 4 to Jun 6 Gothic Revival: Architecture and Decorative Arts of Victorian England. Display examining the fascination of mid-19th century artists with medieval society, with

particular emphasis on the nascent Arts and Crafts movement; from Mar 2 to **OPERA**

Opéra National de Paris, Opéra Bastille Tel: 33-1-4473 1300

www.opera-de-paris.ir Macbeth: by Verdi, Conducted by Gary Bertini in a staging by Phyllida Lloyd, with designs by Anthony Ward. Cast includes Jean-Philippe Lafont and Maria Guleghina; Mar 2, 5

Opéra National de Paris, Palais Gamier Tel: 33-1-43439696 www.opera-de-paris.fr La Clemenza di Tito: by Mozart. Conducted by Ivor Bolton in a staging by Willy Decker with designs by John MacFarlane. Cast includes Theo van der

Walt and Christine Goerke;

Mar 1, 4, 7

POTSDAM EXHIBITION Cinema Museun Leni Riefenstahl: first major German exhibition of the film maker since the war. Includes films produced during the Nazi period and more recent photographic work; to Feb 28

ROME EXHIBITION Palazzo delle Esposizioni Tel: 39-06-474 5903 Poussin: Early Years in Rome. Display of 41 works produced between 1624 and 1628. The centrepiece is 'The sacking of the temple in Jerusalem by Titus' (1925/6), commissioned by the Barbenni family. Includes major public and private loans from

SEATTLE **OPERA** Seattle Opera Tel: 1-206-389 7676 www.seattleopera.org Vanessa: by Samuel Barber. Conducted by Yves Abel in a staging by Sharon Ott. The title role is sung by Sheri

Greenawald/Ashley Putnam; Mar

Europe and the US; to Mar 1

TAMPERE EXHIBITION Sara Hildén Art Museum Tel: 3583-214 3134 www.tampere.fi/hilden

Tony Cragg: 33 sculptures and a large number of drawings by the British-born artist, now working in Germany. The works on display are from the period 1988-1998; to May 9

THE HAGUE **EXHIBITION** Gemeentemuseum

Tel: 31-70-3388 1111 Silver from the time of the United East India Company: display of silver manufactured in the 17th and 18th centuries in former Batavia. Works from the collection are supplemented with important private loans; to

TOKYO CONCERT Suntory Hall Tel: 81-3-3584 9999 Orchestre National du Capitole de Toulouse: conducted by Michel Plasson in works by Debussy, Ravel and Berlioz; Mar 4

VIENNA EXHIBITIONS Austrian Museum of Applied Arts the American artist who his architectural designs.

James Turrell: retrospective of incorporates the elements into including two site-specific installations, the show also features photographs and drawings of the extinct volcano in which Turrell has been working since the 1970s; to Mar 21

KunstHausWier Tel: 43-1-712 0495 Jean-Michel Basquiat: Paintings and Works on Paper, 100 works on loan from the Mugrabi Collection: to May 2

ZURICH EXHIBITION

Kunsthaus Zurich Tel: 41-1-251 6765 Chagall, Kandinsky, Malevich and the Russian Avant-garde: includes important loans from the State Hermitage Museum in St. Petersburg and provincial Russian museums; to Apr 25

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At 08:20 Tanva Beckett of FTTV reports live from LIFFE as the London market opens.

controversial visit to the US in 1995. It was not, as many

believe, the US decision to

a lengthy deterioration in

Sino-US relations but a

power struggle within

China, which was then

preparing to adapt to the

go on such a visit again.

approach he would like to

present term ends next year

This is the kind of

see continue after his

He will not stand in the

March but wants his

successor to stand for

something useful like

Taiwan's aboriginal

missionary work among

population. But he will

continuity.

presidential election next

After the election, the

presbyterian Mr Lee says he

wants to devote his time to

retain his position as party

chairman for two further

important influence over

politics if the KMT candidate

wins. From that position he

will doubtless continue to

concept of what Taiwan is

Despite the emphasis laid

frequently in Taiwan on the

considerably during Mr Lee's

parliamentary elections last

December he began to speak

citizen with a uniquely local

culture who has cast aside

principle that Taiwanese are

ethnically and culturally

Chinese, Mr Lee believes,

but it is a backhanded form

of reassurance. Taiwan, he

says, is developing a new

style of Chinese culture,

unification, will become a

model for the whole country

Behind the red walls of the

President Jiang is scarcely

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going to appreciate that.

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UK'S LEADING

FUTURES BROKER

Zhongnanhai leadership compound in Beijing,

which, after eventual

in terms of politics.

education and justice.

of the new Taiwanese, a

the old ethnic divisions

This concept is not

inconsistent with the

recent immigrants.

between native-born and

status quo, it is a concept

that has developed

time in office. In the

campaign for his own

and what it stands for.

years, giving him an

post Deng Xiaoping era. If

the situation arose, he would

grant him a visa that caused

The unrepentant leader

Taiwan's president is in tough talking mood, say Peter Montagnon and Mure Dickie

man. The smile is natural and continuous, not forced and clenched as many photographs suggest. His manner is mild and relaxed. as befits the man who brought democracy to Taiwan and is now the country's president.

The snag is that his words are anything but reasonable to those to whom they are most clearly directed - his arch rivals in mainland China who have been alternately bullying and cajoling Taiwan to accept speedy unification with a long-separated motherland. In an interview laced with

banter in English and Japanese about sport and his granddaughter's schooling in the UK, an unrepentant Mr Lee avoided the ultimate provocation in the form of a formal declaration of Taiwan's independence. But he described Taiwan as an independent and separate entity of government, expressed support for Taiwanese participation in the planned US theatre missile defence system (TMD), which has recently so enraged Beijing, and insisted that Taiwan could teach China a thing or two about democracy.

Far from injecting a note of calm, these latest utterances - coming just as the US released a report warning of a Chinese missile build-up against Taiwan will add to already mounting tensions. They may provoke an even greater sense of despair in Beijing over the chances of engineering a peaceful resolution to their sovereignty dispute.

In turn, they will be viewed with consternation by those who worry that an outbreak of hostilities across the Taiwan Strait could become a threat to global

Mr Lee, 76, a native-born Taiwanese brought up in the Japanese colonial period, is an instinctive politician with a popular touch. Many analysts believe he

has deftly caught the shifting political mood. Taiwan's establishment is no outrageously to Beijing of

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longer dominated by mainlanders who fled post-revolutionary China and have always dreamed of returning, while a young and affiuent broader public identifies less and less with communist China.

The Kuomintang party. which Mr Lee leads, still espouses the ideal of eventual unification and be maintains that nothing has happened to undermine this possibility. But Taiwan has developed its own unique sense of culture. Unification must only occur when the conditions in China are appropriate and on terms that respect Taiwan's dignity. In the meantime, he says, "you must consider Taiwan is an independent and sovereign area, and a

political entity". That is essentially where his unyielding argument begins and ends. His aides would prefer him to speak not of Taiwan and say he always means to use the island's less provocative official name, the Republic of China. But, perhaps deliberately or perhaps because he is too relaxed in a foreign language, he repeatedly uses the term. Taiwan, that smacks

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tacit support for independence. While Taiwan is keen to

talk to the mainland about practical issues like fishing rights and investment, Mr Lee lays little emphasis on the prospect of substantial political dialogue at present. The next round of talks in Taipei will simply give Wang Daohan, Beijing's negotiator, a chance to see for himself what Taiwan has achieved. "He's invited. He will learn about Taiwan. He will get to understand what is democracy, what is

As for TMD, the concept of a US-led regional defence system against missile attacks is officially only an option that is under consideration, but Mr Lee is unmoved by worries that it could be a financially costly investment that might also provoke China into taking military action against Taiwan.

Instead he is taken with the idea as a means of forcing China into scaling back its weapons and entering talks on Taiwan's terms. "Maybe they might have to throw away their missiles." he chortles. Equally he remains

unrepentant about his

Contact: Japaes Allan Tel: 0171 337 3999

LETTERS TO THE EDITOR

Environmentalists and GM debate

7

Sir, Your leading article "The perversion of science" (February 20-21) on the genetically modified food debate suggests that "organisations such as Friends of the Earth...have too often been contemptuous of facts and dishonest in their use of scientific findings". You provide no evidence whatsoever

to support this claim. Our role in the GM food controversy has mainly been to publicise environmental

mutations, the likelihood that pesticide and weedkiller resistant crops may encourage use of more, or more powerful, sprays - damaging to biodiversity - and the risks of allowing large multinational companies to gain further control over our food chain by patents on key genes and restrictive contracts with farmers.

concerns about GM crops. can be found on our internet These include the danger of web site by anyone with cross-pollination producing sufficient energy

environmentally damaging journalistic integrity to

For each of these arguments we have provided extensive evidence, which

If your newspaper wishes to lecture other parts of the media about their attitude to science, it would strengthen your case if your own attitude to facts were a little less cavalier, and if your editorial writers had sufficient

check their more damaging

assertions before they

Charles Secrett, director Friends of the Earth.

appear in print.

26-28 Underwood Street,

Allergy to scientific facts is catching

daft tabloids and the congen-

From Mr Michael Kenward. Sir, Gerald Dorey ("Mon-santo miscalculated over environmentalism", Letters, February 25) is spot on in his assessment of the role of the environmentalists in fuelling the media's feeding frenzy over genetically manipulated foods. But he spoils his argument by a blanket assertion of "the inability of the media to forgo a nice horror story".

This saga has been as much as anything an excellent case study in how the ss reports science. With

much of the coverage was actually balanced and informed. Several correspondents even went so far as to explain how science works. and that Dr Arpad Pusztai's techniques of information dissemination fell at the first hurdle. Publication by press conference has never carried much weight.

Having defended my colleagues in science writing, I can understand why the the exception of the ever political and general report-

itally green publications dinner of the story, but I am printed with vegetarian ink, puzzled by the alacrity with which several environmental correspondents unthinkingly bought the greenwash, often allergy to scientific facts.

> Michael Kenward, Grange Cottage,

reaching very different conclusions from their science writing colleagues. Perhaps they have spent too much time with environmentalists and have caught their

West Sussex, RH17 6EL, UK

Huge task of destroying landmine stockpiles

From Mr Ian Mansfield. Sir, The destruction of 2m anti-personnel landmines by the British Army is encouraging news (your report, February 23). The UK is an enormous task. Ukraine, sending a clear signal to other countries about the importance of destroying stockpiles of landmines, as required by the Ottawa Convention. The landmine the concern among humanitreaty, signed by 133 countries and ratified by 65. comes into force today. It requires countries that have clearance-related projects ratified to destroy their

stockpiles of landmines by

the destruction of deployed landmines within 10 years. The destruction of stockpiles is an extremely important step, and in some cases for example, is estimated to have 10m mines in its stockpile, and has approached Canada for assistance in destroying them. However, tarian and relief agencies is that the already limited

funding for existing mine

should not be diverted to

pay for stockpile destruction,

March 2003, and to ensure and that additional

ing for this task. Nor should the neutrality of existing civilian mine action programmes be com-

promised by requiring them to enter military bases. Separate bilateral arrangements must be developed between nations' militaries to under take these "single event" stockpile destructions. lan Mansfield.

head of mine action team, United Nations One United Nations Plaza, New York, NY 100017, US

Wrong about **US** recessions

From Dr Wynne Godley. Sir. Arun Hargobind (Letters, February 24) is wrong when he asserts that "recessions [in the US] are kept shallow by stimulating the tradeables sector with a weaker dollar".

During the 1974-75 recession there was a short-lived depreciation of the dollar; but the temporary improvement in the trade balance was so small that it did little to alleviate the recession. During the 1981-82 recession the dollar strengthened spectacularly and there was a deterioration in the trade balance that accentuated the recession. During the 1990-91 recession there was a small depreciation of the dollar but the improvement in the trade balance was not nearly large enough to mitigate the recession significantly.

Mr Hargobind's reference to the (small) fall in the dollar between April 1991 and August 1992 is very obscure, particularly as the trade deficit increased from \$12bn in the second quarter of 1991 to \$38bn in the third quarter of 1992. This was a period when the dollar was fluctuating about a flattish trend and the numbers are greatly affected by small differences in the periods chosen for comparison - for instance, between the first quarter of 1991 and the fourth quarter of 1992 the (trade weighted) dollar rose

nearly 5 per cent. Mr Hargobind completely ignores the fact that the large and growing excess of private expenditure over income in the US has no precedent and he does not address my argument that this unique excess carries unusual dangers.

Wynne Godley. The Jerome Levy Economics Institute of Bard College,

Annandale-on-Hudson New York 12504-5000. US

Number One Southwark Bridge, London SE1 9HL

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PERSONAL VIEW ONNO DE BEAUFORT WIJNHOLDS

Maintaining an indispensable role

Rather than attempting to play at lender of last resort, a role for which it is not well equipped, the IMF should settle for a less ambitious approach to its lending policies

"reforming the international financial architecture" (really a

matter of renewing the lender of last resort. These problems.

olay a role that it is not well equipped to take on and that mined. carries a considerable risk of moral hazard, the Fund should settle for a less ambitious approach in its lending policies, while seeking to increase the involvement of the private sector in dealing with financial crises.

Using this approach, the TMF could continue to play an indispensable role in dealing with countries facing serious external imbalances. In fact, there is a need to strengthen the role of the Fund as the "indispensable lender", not by providing ever larger credits but by making sure that other creditors take their fair share in the resolution of international financial

upheavals. The notion of a lender of last resort is best known in a domestic context, where central banks stand ready to provide liquidity to illiquid but solvent banks, usually against collateral and at a penalty rate.

Applying this concept to the IMF is inaccurate on two counts: the Fund is not a world central bank with unlimited money-creating powers; and it lends to countries, not to banks. These two facts mean the IMP can assume a lender-of-lastesort role only to a limited extent.

Its resources come from national governments which are clearly unwilling to provide it with the amount of money that such a role rould entail. Also, the Fund cannot make a distinction between solvent and insolvent countries, Indeed, the credit line in effect consti-

n the debate about very concept of insolvency is tutes an up-front guarantee not well suited to sovereign nations.

Even though the IMF cannot be a fully-fledged lender wiring and plumbing, but of last resort because of its changing the architecture funding constraint, attempts sounds more important). at playing such a role could there have been several calls be harmful, especially when for the International Mone- announced in advance. The tary Fund to become a moral hazard this would create could be unacceptably suggestions pose serious high, and efforts to achieve an equitable burden-sharing Rather than have the IMF in times of financial crises

Granted, moral bazard

would be seriously under-

problems would probably Brazil in 1998. not be serious with respect

that the IMF will bail out a country that in the past has conducted adequate policies. Under such a system, it the sort of conditionality Fund facilities, with their prior requirements and per-

formance criteria. Those who are sceptical about this argument should think about what would have happened if such a contingent credit line had been South Korea in 1997 or to crisis.

A prior question lurks

The only way to reduce moral hazard drastically is for the IMF to refrain from attempts to become a lender

of last resort

to the borrowing countries, as long as adequate conditionality is maintained. But they apply with full force on the creditor side. Banks and other financial institutions have the IMF very much in mind as a source of comfort when making decisions about whether to lend to risky countries, where higher yields can be

obtained. While suggestions have been made to reduce such moral hazard, they are not very convincing. The only way to reduce moral hazard drastically is for the IMF to refrain from attempts to the process. become a lender of last resort.

In this light, the proposal to create a contingent credit line within the IMF is not helpful. The obvious danger is that the existence of such a contingent credit line on top of the already existing facilities of the IMF would provide even more comfort to private sector lenders. Moreover, it could well engender moral bazard on

the borrower side, too. This is because a contingent

behind the debates on lender of last resort and the contingent credit line: is it really essential for the IMF to provide the bulk of countries financing needs in order to play a central role in the resolution of their financial and

Experience so far suggests the answer is no. The Fund provides on average no more than 10 per cent of the financing requirements of the countries that turn to it for support (in special cases it has been considerably larger). Yet it is generally considered to be the pivot of

economic problems?

This is the role of the IMF as the indispensable lender. because its conditionality constitutes the best possible guarantee of timely repayment (most countries cannot provide adequate collateral). It also provides the best hope of a - possibly lasting improvement in the borrowing countries' eco-

nomic policies. Other official lenders tend to link their money to a Fund programme: the Paris The author is an executive Club, the World Bank, the director of the LMF

European Union and official bilateral lenders. Also, private sector participants, particularly commercial banks, are more willing to lend to a would be hard to maintain country if an IMF programme is in place required under existing (although obviously this is a

much looser link). This process referred to as the catalytic role of the Fund - is only one element of its "indispensable lender" role. The IMF also co-ordinates the contributions of other offiavailable to Indonesia or cial creditors - during a

> Indeed, the Fund might well do more here, especially in involving the private sector. The missing link in dealing with international financial crises has often been the lack of mechanisms for involving private companies. In playing a more active and at times forceful role here, the IMF would strengthen its role as indispensable lender without resorting to the provision of even larger credits of its

All the same, the Fund needs to tread cautiously in this area. While it and creditor governments should take into account the concerns of the private sector in dealing with financial crises, it should be kept in mind that the Fund's Articles call for it to provide credits "to give confidence to members" and not necessarily to members' creditors.

In sum, the IMF should not be pushed into the role of lender of last resort, a role that it cannot wholly fulfil and is also fraught with moral hazard. The Fund can The Fund is indispensable and should continue to play a central role in addressing financial upheavals without providing the bulk of the financing needs of countries in crists.

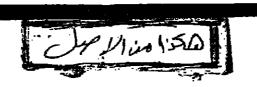
By linking its credits to sound economic programmes, and by involving other parties, including the private sector, the IMF will be the indispensable lender.

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Monday March 1 1999

Hong Kong's rule of law

There always was a reason to land children had the right to worry about the independent rule of law in Hong Kong after the handover to Chinese rule.

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MARCH

The constitutional row between the former British colony and Beljing over a recent ruling by the territory's top court shows that those worries are justified. This will damage Hong Kong's standing as a business and financial centre. It is up to politicians on both sides to limit the injury for the sake of their own selfinterest.

At stake is the credibility of the "one country two systems" deal under which the territory reverted to Beijing in 1997.

Making this work was never going to be easy. That was made all the more clear when Hong Kong's highest court, the Court of Final Appeal, was obliged by Beijing to clarify the most important constitutional judgment it has ever made.

A chastened court had to reaffirm that the territory's post-colonial constitution did not allow it law in Hong Kong. If its courts to question the authority of the run into trouble over immigra-National People's Congress, the Chinese parliament.

The NPC's constitutional rying. supremacy over Hong Kong is not the main worry. It is stipulated in Hong Kong's post-colonial constitution, the Basic Law. But the background to the row demonstrates insensitivity to the rule of law on the part of both

decision by the court that main-

keep can seem as important as

the cause you espouse. Oppo-

nents in Britain of Europe's sin-

gle currency have long laboured

under the handicap that for

many of their number hostility to

the euro is symptomatic of a vis-

ceral dislike of all things Euro-

party especially the line between

often seems perilously thin. A

rational case for opting out of the

single currency is not easily

made by those who still see Ger-

many as a nation conspiring for

Thus the latest convulsions in

William Hague's party reflect the

fact that euro supporters such as

Kenneth Clarke and Michael

Heseltine give every appearance

of being moderates while never-

say-yes opponents cast them-

selves as extremists. The launch

today of a new cross-party cam-

paign to "save sterling" is

intended to address that weak-

ness. The New Europe group

believes Britain can continue to

play an active role in European

Union affairs while remaining

outside the new monetary

The executive board includes a

fair number of the great and good from across politics and business.

It is impossible to cast Martin

arrangements of the euro-zone.

European domination.

live in the territory if one parent was a permanent resident - and even if they did not have a Chinese exit visa.

Hong Kong's judges maintained that they had the right to review acts of the NPC and declare them invalid in Hong Kong if they contravened the Basic Law.

The Beijing government saw this as an unacceptable threat to the NPC's supremacy. So it asked for parts of the ruling to be clarified. In response, the Hong Kong government took the unprecedented step of asking the court to review its decision: a challenge to the judicial autonomy on which any capitalist economy depends. It is no wonder local and foreign business interests

The risk is that this might be a foretaste of even more serious constitutional upsets, as the Chinese government struggles to come to terms with the rule of tion, the scope for more constitutional rows in the future is wor-

Some comfort can be drawn from the fact that the substance of the court's decision remains intact. Even so, this is a reminder that it is in the interests of both governments to respect Hong Kong's rule of law. If they do not, confidence in both The source of the dispute was a of China's systems will

of paranoid Europhobe. The same

Prior. In Lord Owen, the group

has chosen as its chief spokes-

man someone with a record of

pro-Europeanism - though one, it

must also be said, whose political

career often saw him as a cham-

Less clear is the basis of their

Healey appears to rest his objec-

tions on the view that a "one-

size-fits-all" monetary policy is

economically unsustainable,

while others fear that economic

and monetary union must lead to

a European superstate. A third

concern seems to be the lack of

in the single currency (which

include this newspaper) should

welcome the fact that at least one

grouping on the opposite side

intends to frame the arguments

in rational rather than emotional

terms. When Britain votes in a

referendum on the issue it must

That said, New Europe faces a

thankless task in seeking to per-

suade people that Britain can

retain a powerful voice in Euro-

important economic alliance. Nor

does a common monetary policy

inso facto demand a single eco-

do so after an informed debate.

Yet supporters of participation

political accountability.

Bad company

Sometimes the company you before that a writer on this news-

In parts of the Conservative pion of lost causes.

Tax harmony? No thanks

Attempts to reform taxation across the EU will meet huge resistance, say Kevin Brown and Jim Kelly

hey did not ask. They may not want to hear the answer. But they had better start listening. Oskar Lafontaine and Dominique Strauss-Kahn have separately suggested proposals that would harmonise Europe's corporate taxes and remove the national veto on taxation changes. Now Europe's business people are starting to respond. And the message to the politicians is clear: they hate it.

An FT survey of European business organisations, carried out over the past six weeks, reveals virtually no support for the ambitious tax reform agenda set out by the German and French finance ministers.

The main business organisations in 14 EU countries gave us their views. Only the Portuguese failed to respond. Jacques Creyssel, director-general of Mouvement des Enterprises de France, the main French business organisation, gave full support to both tax harmonisation and a move to qualified majority voting on tax matters in the council of ministers. But Mr Creyssel was the only national business leader to do so. And he opposed harmonisation unless it was designed to cut the overall tax burden.

There was patchy support for various elements of the proposals in Belgium, Greece and Sweden. And some business leaders said they were in favour of a modicum of voluntary co-ordination. But the thrust of business opinion was clear. From Germany to Ireland, Finland to Italy, there was overwhelming hostility to any enforced move away from competition between national tax

There was also scepticism about the hidden arenda behind the proposals, "Business is very wary of the particular forum for this debate, which is a cartel of finance ministers trying to find ways to increase the aggregate level of tax," says Adair Turner, director-general of the Confederation of British Industry.

"There is not, in the husiness community, a visceral objection to this issue being on the table, but there is a lot of suspicion about where it would lead, given paper), in the stereotypical mould the motives of those who are putting it on the table, particularly can be said of lords Healey and in France and Germany."

The launch of the euro, the common currency for a single EU market, was always likely to be the spark that ignited a furious debate about whether EU members should harmonise tax and voting in the council of ministers of others. The intellectual under-Emu-scepticism and Europhobia opposition to the euro. Lord on tax decisions. Monetary union pinning for this argument has inevitably increases pressures on been best put by Mr Monti, who level playing field for business.

> But it was Mr Lafontaine, Gerister, who pitched the issue into the political arena. He sees tax harmonisation as an ideological goal of his Social Democratic

Mr Lafontaine is not alone. Mr Strauss-Kahn, his French opposite number, has publicly called for majority voting on tax issues. Mario Monti, the European commissioner for the single market has said he opposes minimum corporate taxes but has warned that pressure for change may be difficult to resist unless member states end "harmful" tax compe-

Mr Lafontaine, memorably pean affairs outside its most described by the UK's Sun newspaper as Europe's most dangerous man, was eventually per-suaded to use the phrase "tax co-ordination" in an effort to

Do you think that the tax base for compar across Europe should be termonised? Company statute should be used to achieve this objective? If so, do you think the proposed European Do you think EU countries should be allowed to offer special tax regimes to attract business from other EU countries? Do you think governments should be allowed use tax breaks to assist specific industries? Do you approve of the European Com-proposals for a withholding tax on cr

Do you think the hurden of corporate taxation in your country is too high, too low, or about right relative to the rest of the EU? Comporate tax rates. Jen 1999 (%)

Do you think countries should be allowed to

levy a zero rate of Value Added Tax on some

CON CON CEDE VOI VNO-NOW FST VBO-FFB BDA - BDI CFE BEC - FG TEDL AP/CP Are you in tayour of weighted majority voting on tax matters in the Council of Ministers? **....X** ... X X ? × Too Niga About right. 52.31743.60 28 35/40 41.25 ✓ Yes X No ? Under LEASON

smooth ruffled feathers in Lon- really do damage others, there mined Irish marketing efforts. exemptions. In the UK and don. But unbowed by the furore his remarks caused, he went on

to flesh out Germany's policy with the backing of Gerhard Schröder, the German chancellor. Mr Lafontaine believes taxes in Europe have converged in the wrong direction. Taxes paid by workers on consumption and

wages have been pushed up, as have social security contributions. Taxes on assets, capital and company profits always go down. "Correcting this totally mistaken trend is a task not just for the German government. It is a task for every party in Europe which describes itself as social democratic," says Mr Lafontaine. Harmonising corporate taxes

could be justified if there was real evidence that unfair tax competition was damaging some move towards qualified majority EU member states at the expense national governments to create a argues that low business taxes ~ designed to stimulate economic activity and attract fresh investmany's mischievous finance min-ment - should be treated just like illegal state aid. The analogy seems reasonable at first sight. But there are many who think it breaks down under scrutiny.

Paul Seabright, a senior research fellow at Churchill College, Cambridge, says state aid is most suspect when it is aimed at giving a substantial commercial advantage to a domestic company with significant market power. But general business taxation applies to all companies operating in a particular tax jurisdiction, along with the regulatory framework and the public infrastructure. "There is no more reason to expect these costs to be the same across countries than to expect the cost of labour to be the same across countries," says Mr Seabright.

If low taxes in one country the two countries, and deter-

ought to be evidence in Ireland, which has had an average annual economic growth rate of about 5 per cent for the past 15 years. and has also been spectacularly successful at attracting foreign direct investment.

Ireland has now agreed with the European Commission that it will phase out its 10 per cent rate of tax for manufacturers and exporters in favour of a standard rate of 12.5 per cent from 2003, still very low by EU standards. But has Ireland's special rate of tax attracted investment at the expense of other EU states?

Maybe, says Mr Seabright. Some investment has probably gone to Ireland that might have gone elsewhere. But some has

Ireland has been spectacularly successful at attracting foreign direct investment

probably come to the EU that would not otherwise have come to Europe at all. And Ireland's rapid growth has probably had modest spillover effects through trade with other member states.

Frances Ruane, professor of economics at Trinity College, Dublin, says it is undeniable that low corporate taxes have been a big selling point for the Irish economy. But there are many other factors, such as improving skills levels and wage restraint. Most importantly, foreign direct investment in Ireland is overwhelmingly from the US, and that is arguably because of the close cultural affinity between

"Without Ireland having been so proactive in looking for US FDI might not have come to Europe at all," says Professor Ruane.

At a superficial level, Ireland's decision to abolish the special rate for exporters was a victory for tax harmonisation. Corporation tax rates across the EU have dropped by an average of three percentage points to 36 per cent in the past three years. "While there are still differen-

tials between the EU member states, it is interesting to note that France, Germany and six other European countries reduced their tax rates last year," says Ian Barlow, head of tax at KPMG, the professional services organisation. "We would expect the advent of the euro to accelerate that trend."

But corporation tax rates are difficult to assess the impact of taxes on individuals that

impinges on business. The taxes actually paid by business are governed by a range of factors that define the tax base - the income upon which the rate is levied. Tax systems in Europe have fundamentally different approaches to the tax base. low rate. France and Germany have high corporate tax rates but companies there typically pay much less in corporate taxes. We just think our system is more efficient," says Nicholas Dee, of the CBI tax committee.

There is massive variation in the tax base across the EU involving tax allowances and

France, for example, there are no tax allowances on the acquisition over a long period of time, it of goodwill - the difference between the price paid for a company and its net asset values. But allowances are available in Denmark and Italy. Even this pattern of taxation is distorted by tax breaks and tax havens. There are widely differing regimes for the treatment of income channelled through dependent territories.

All EU member states agree that "harmful" tax competition should be outlawed - the problem is defining harmful. A group of officials led by Dawn Primarolo, the UK's financial secretary, is investigating 80 specific tax measures. Regional tax breaks, such as those in Italy, and industry tax incentives, such as those enjoyed by the UK film industry, may be ruled out.

The group is also likely to look arguably the least helpful indica- at the tax regimes for foreign tors of the actual tax burden companies. There is competition shouldered by business. "Tax between financial centres, such rates are possibly the last thing as London and Amsterdam, to you should be looking at," says offer incentives to companies to Mr Barlow. Not only is it very bring their headquarters difficult to gauge the aggregate operations there. The taxation of tax burden on companies, it is profits channelled through such centres also differs widely. The Primarolo group was to have moved on to look at whether member states' general tax regimes were harmful - but that move was blocked by the Irish.

Taken together, these factors mean that even if all EU members had the same corporation tax rates, the result would still be "The UK taxes companies at a patchwork of corporate tax regimes. That will not stop Mr Lafontaine pressing his harmonising agenda. But there must be strong doubts about whether business can be persuaded the motive is really to make Europe a better place to do business. And, as the FT survey makes clear, any attempt at compulsion will provoke howls of outrage.

Quack medicine

Taylor, the former chief execu- nomic government. We look for-

tive of Barclays Bank (and long ward to the debate.

Pat Buchanan, the maverick Bush, the Democratic and Repubright-wing US politician, does not lican front-runners respectively deal in ambiguity.

in Weirton, a depressed West Virginia steel town, ahead of the launch tomorrow of his presidential campaign, signals unequivocally his intended electoral pitch. It is that imports are destroying American jobs, and that the US should fight back by raising trade harriers and shutting out the rest of the world.

That was Mr Buchanan's refrain in the last two presidential elections. It is no more likely this time to win him the White House. But he appears to believe it will prove popular enough for him at least to influence the debate and put his opponents on the spot. He might just be right. Conventional wisdom holds

that while the US economy - remains strong, protectionism will stay muted. The one exception is the steel industry, hard hit by cheap imports. President Bill Clinton's administration has reacted by talking tough on trade but doing relatively little, hoping

the import surge will abate. However, there are growing signs of public frustration that so much responsibility for global economic recovery is falling on the US. The administration's public alarmism about the rising US trade deficit has stoked the

Neither Al Gore nor George W. free trade.

for the White House, has capital-His planned appearance today ised on this mood, not least because they are instinctively internationalist. That leaves Mr Buchanan with a monopoly over isolationist and protectionist solutions. If these look like catching on, his mainstream opponents should respond by tackling him head-on.

They need to show Mr Buchanan's supposed remedies up for the dangerous quack medicine they are. Free trade and cheap imports undeniably cost some jobs in weak industries. But they create many more and generate prosperity, by enabling producers to source inputs efficiently and stimulating them to become more competitive. Erecting trade barriers would not only deny US businesses these advantages but could trigger a spiral of protectionism worldwide, which would severely harm US exports and the growing number of jobs which depend on them.

Mr Clinton, although no protectionist, has not done enough to persuade the US electorate of the basic case for open markets. Now he is committed to another world trade round, it needs to be made forcefully - by him and by his would be successors. They should seize the opportunity presented by Mr Buchanan's candidacy to drive forward the argument for phone, a hand-held mobile that

As clear as mud When it comes to good

corporate governance, most Russian companies just haven't got what it takes. But their loudest critics are not always the best placed to attack.

Take the team from US group Dart Management. It's gearing up in the next few weeks to attack the opaque accounting and dubious use of offshore vehicles by majority shareholders. It refuses to disclose how much it paid for its Russian shares or how much money it manages overall, and it's based in that offshore haven hardly known for its openness, the Cayman Islands.

And then there's the self-righteous Cambridge Capital Management. It's demanding the use of more candid financial statements and transparency from those Russian companies in which it has invested a sum it refuses to reveal. It won't talk to the media, and its adviser isn't authorised to reveal where its registered headquarters are. So that's cleared up then.

Tough talking

Why bother to phone when you can afford to fly? The thought clearly never struck one of the very first users of an Indium can be used everywhere from the South Pole to the Sahara desert. The busy businessman hired the phone to go on holiday to Scotland, but was astounded to find he'd run up a bill for £6.000. Iridium calls cost between £3 and £5 a minute - and the executive had been on the blower for around 25 hours.

"Not much of a holiday," mused Ed Staiano, Iridium chairman, recounting the story as he revealed that his company was about to begin talks with bankers over why so few had taken the !ridium service. Observer can't imagine why.

Clementi steps in

London, Paris and Frankfurt are busy slugging it out for the honour of being called the financial capital of Europe. But the people leading the charge in each city have never met.

That's about to change. UK think-tank, the Centre for the Study of Financial Innovation. has persuaded Finanzolatz Deutschland's Stefan Seip and Amaud de Bresson of Paris Europlace to meet in London to thrash out the future of financial Europe with their UK counterpart That raises an awkward

question. Who is their UK counterpart? Actually, no one. Unlike France or Germany, London has no single body representing the stock exchange the big banks, the central bank and the local authority. All is not lost though. David

Clementi, deputy governor of the Bank of England, is to save the day and attend the meeting. Should prevent a few red faces.

Strikes a chill

OBSERVER

Spare a thought for harassed information technology bosses desperately wondering where their next lucrative millennium bomb is coming from.

the next challenge, they've already created the requisite piece of jargon. The industry that brought us "hardware" (the computers themselves), "software" (the programs they run), and even "vapourware" (strongly hyped products that don't exist yet), has now coined "warmware" to describe a commodity vital to the success and well-being of any

It's nice to know that, whatever

Taking a dive

organisation: people.

A recent cold snap and the waning opinion poll ratings of the right-wing government led by the Fidesz Hungarian Civic Party have prompted a rather unpleasant thought in some Hungarian civil servants' minds.

What, they whisper, would happen if prime minister Viktor Orban, finance minister Zsigmond Jarai and the colourful head of the tax office, Lajos Simicska, were all out skating together and the ice broke? Would Orban's footballing skills

to grapple with new challenges save him? In recent years he's run Magyar Hitel Bank, now ABN Amro's Hungarian operations, and been head of the Budapest Stock Exchange. Or would it be Simicska, who's already had to extract himself from a few high-profile rows? But puzzle no longer over it. The favourite answer to the question of who

would be saved: "The Hungarian

get him out? Would Jaral's ability

Short fuse

people, of course."

It was only a matter of time. After road rage and air rage, along comes network rage - and a survey of the damage that disgruntled computer users inflict on their machines. Eighty three per cent of them have apparently resorted to abusive and often violent behaviour as a result of keyboard problems, resulting in shattered monitors and kicked in hard drives.

Some users, according to the Concord Communications survey, don't understand why the mouse doesn't work when picked up and pointed at the screen, while others become enraged when they can't find the

right keys. But Observer's favourite concerns the store manager who complained the floory drive on his PC wasn't working, it seems employees had misused the floppy slot. It was stuffed with hundreds of cheques.

Financial Times

100 years ago Progress Of Cripple Creek

"Cripple Creek", as El Paso County is generally known, is not only steadily increasing its output of the precious metal but actually takes the lead in this respect of all the counties of the State of Colorado. During 1898 Colorado produced gold to the value of \$26,846,835, an increase over the previous year's returns of a trifle in excess of 37 per

Of this total, it is estimated Cripple Creek has contributed in round figures no less than \$15,000,000, the next largest producing county being Gilpin, with an output of \$2,580,445.

50 years ago

Italy's Import Tariff Rome, Feb 28. Great anxiety is shown by Italian import trading circles regarding the new Italian tariff, which is reported to set up very heavy protective barriers for Italian industry. It is rumoured that the duty on many goods is more than 100 per cent. Raw steel, for example, is 80 per cent of its value.

The new tariff will not be submitted to Parliament for approval and will come into effect on solely Cabinet approval.

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FINANCIAL TIMES

ECCLESIASTICAL

MONDAY MARCH 1 1999

THE LEX COLUMN

Top markt

At last, some good news about Germany, Defying the stereotype of the German economy as over-regulated and inimical to young companies, the Neuer Markt is thriving. Since its 1997 launch it has outperformed the Dax by a blistering 430 per cent. In attracting listings and providing a liquid, well regulated aftermarket, it leaves Europe's other growth markets

By favouring innovative, technology-led listings and insisting companies prove their growth credentials by raising new capital, the NM has overcome the Europewide bias against small-company markets. The contrast with, say, the UK's unfocused and dramatically underperforming Alternative Investment Market is obvious.

The danger for the NM, however, is that current valuations - it is on a 2000 p/e ratio of 59 - prove unsustainable. Having outperformed the Dax by nearly 50 per cent this year, it contains many stocks with fantasy ratings. The hordes of often internet-based retail investors may find their new found love affair with equities enters a rocky patch.

But for now the NM's success is a highly visible sign of the changing face of German capitalism which promises new jobs in new industries. While its rapid growth has been helped by the large pool of Mittelstand companies itching to tap new sources of equity finance, the NM is a phenomenon from which other European markets have much to learn.

South African Breweries

In some ways, South African Brewerles looks a straightforward proposition. Its core business has annual sales of \$4bn, operating profits of about \$600m-\$700m and double digit underlying growth. SAB had a market value of more than \$5bn at Friday's close in Johannesburg, making it a candidate for the FTSE 100 index.

three-quarters of SAB's profits come from South Africa, the rest from other emerging markets. The rand's slide against the dollar has hit its figures in translation, and the risks of emerging markets are starkly illustrated by last year's \$71m write-down in Russia. SAB has a non-core industrial business for sale, PGSI, which

struggling to qualify for membership of the FTSE 100 index. It is going to be a sweaty 10 days until the indices commit-

What makes the shares even more of a punt is SAB's deal-making potential. Will it be a takeover target? Its largest shareholder has already dangled a 28.5 per cent stake in front of rival international brewers. But the South African authorities would surely balk at a takeover of a virtual domestic monopoly. More likely, SAB will merge or buy. But if nothing happens, it faces a hard slog to build popular-

US financial regulation

How can two men credited with the most sparkling economic management in a generation disagree so hopelessly over so little? Alan Greenspan, the US Federal Reserve chairman, and Robert Rubin, the US treasury secretary, show no signs of coming to their senses over modernising the ludicrously outdated laws that splinter the US financial services industry.

After two weeks of testimony before But nothing is straightforward. About Congress, they seem more deeply entrenched than ever in the turf war over who should lead regulation of the new financial conglomerates. The simple answer would be to let the industry decide which regulator should win the day, and which corporate structure pre-

Given the congressional quagmire, what issued a profits warning this month. Even can the industry do? After two decades of rate financiers had better start brushing after the £150m fund raising, the group is infighting, the various lobby groups up their language skills.

CONTENTS

broadly agree on the objective of remov ing the barriers between banking, securities and insurance companies. They know that without legal reforms, the industry faces more of the same costly muddle Banks, insurers and brokers will continue wriggling through regulatory loopholes to achieve some measure of diversification. Mr Greenspan rightly sees this ad hoc approach as inefficient and inconsistent. But as long as the wrangle continues -and the threat of a presidential veto hangs over the proposed legislation - the prospects for Citigroup being able to hold on to its insurance operations look increasingly doubtful.

Electricity deregulation

Continental Europe is slouching towards electricity deregulation. What will this mean for Europe's utilities? Consider the incumbents, including Endesa in Spain. Enel in Italy, Eléctricité de France, and Viag, Veba, Bewag and RWE in Germany. Their domestic power base will eventually be gnawed away. But, as PowerGen and National Power have shown in the UK, it is possible to cling on to a substantial chunk of the home market for a long time.

The key is regulation. Sale of generation assets may be imposed by governments - as in Italy - or opened up to the private sector - as in the Netherlands. But competition in generation is not much use if rivals cannot access the transmission system on fair terms. Incumbents often control both the transmission of electricity and its supply to users. Transparent tariffs are needed, as well as ring-fencing between transmission and supply. This is needed to ensure confidential customer data is used only for transmission purposes, not by incumbents seeking to bolster their own supply divi-

Europe's regulators will be pushed in this direction by aggressive outsiders shouting about the raw deal European consumers get because of weak competition. Meanwhile, ambitious incumbents should use their low cost of capital courtesy of low interest rates - to consolidate. Why not an Endesa/PowerGen deal capped by a US deal later? Those corpo-

FINANCIAL TIMES

brary of over 3.5 million priicles from the FT and

INFLATION-BUSTING DEAL MAY INFLUENCE ECB OVER INTEREST RATE CUTS

Trade unions win 3.1% pay rise for German workers

By Tony Barber in Frankfurt

Trade unions representing more than 3m German public sector workers have won a pay increase of 3.1 per cent, far in excess of the annual inflation rate of 0.2 per cent and more than the government had envisaged in its draft 1999

The pay deal, which will take effect in April and run for 15 months, was agreed on Saturday, less than two weeks after the engineering workers' union IG Metall, the biggest in Germany, won a wage increase worth roughly 4 per cent

Economists said the German pay settlements might stiffen the resistance of the European Central Bank to cutting interest rates in the eurozone when its Governing Council meets in Frankfurt on Thursday.

Wim Duisenberg, ECB president, has made clear his reluctance to reduce the main refinancing rate, now at 3 per cent, if he detects evi-

budgetary indiscipline among eurotaine, Germany's finance minister, who says the country faces a risk of deflation and that generous pay increases are a useful way to boost demand in the economy.

Latest figures show that Germany suffered a 0.4 per cent contraction in gross domestic product in the final three months of 1998.

Germany's public sector workers had originally demanded a 5.5 per cent pay increase and staged warning strikes last week in dozens of cities, disrupting public transport and rubbish collection services.

Chancellor Gerhard Schröder's centre-left government said the draft 1999 budget had set aside enough for only a 1.5 per cent pay

But the government was also anxious to avoid a pay battle with state employees of the kind that forced independent arbitration in the last union is concentrating its efforts on two years of the previous conserva-

Employers in the engineering budgetary indiscipline among euro-zone countries. His opposition to a industry were angry at having to concede a pay rise of roughly 4 per cent and predicted that it would rebound on their workforces by forcing job cuts.

But IG Metall's success has encouraged high wage claims else-where in the German economy. The IG Bergbau, Chemie, Energie union. representing chemical workers, is demanding a rise of 5-5.5 per cent. Other unions representing bank-

ing, insurance and retail workers are seeking wage rises of 6-6.5 per cent. The airline Lufthansa, whose workers are represented by the same unions that negotiate for the public sector, agreed last Wednesday to a 3.5 per cent pay rise for its 51,000 ground and cabin workers, plus oneoff payments of DM440 (€225) each

for January and February. The only significant sign of wage moderation is in the depressed construction industry, where the IG Bau protecting jobs and securing better

Move to synchronise stock market hours in Europe

The London and Frankfurt stock exchanges have begun consultations with investors, brokers and listed companies about harmonising their hours as part of their plan to develop a pan-European market for Europe's top 300 companies.

The proposals reflect Europe-wide nervousness that business will be lost if, as expected, the New York Stock Exchange stretches its trading time. Stockholm's exchange, Europe's only publicly quoted national stock market, is also to

extend its hours. A report being drafted by the London Stock Exchange, to be published within the next two weeks, suggests ward an hour to 8am UK time, while attract sufficient investors." hour to start at the same time. The report also raises the possibility that

increased from the nominal oneshare level, and the maximum time orders remain on books be altered from the current 31 days. The changes are expected to take place later this year. The proposal to open an hour earlier in London would reverse the delayed opening started only nine months ago to eliminate rogue prices on Sets, the electronic

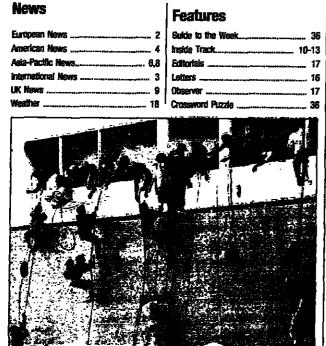
rading system. The London Stock Exchange said there were "no practical difficulties" to extending hours if the demand and market liquidity justified the

"The key driver for attracting investment is not simply access but being able to provide good levels of liquidity throughout the entire trading period," it said. "Each market must consider over what period it trading in London be brought for- can provide this level of liquidity to

The exchange said react been broadly favourable. David Butler, director at stockbroker Teather too late. If London wants to stay ahead of the game and remain as the third leg of the international world market [with New York and Tokyo] it has to lead rather than follow."

Stockholm, which trades between 10am and 5pm, plans to open between 9am and 10pm this year. Longer hours will allow Stockholm's 173 members in Sweden and abroad to trade until the New York stockmarket close. It hopes to win a larger share of trading in Swedish blue chips such as Ericsson, the telecommunications equipment maker, much of which takes place in New York. The move is also aimed at winning a greater share of trading in Nokia, the Finnish mobile telecommunications group, from the Helsinki exchange where the company

has its main listing. New York is understood to be considering opening earlier than its



ns in the area grew. Regions seek independence, Page 6. Reuters

Companies & Finance New York Stock Exchang

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ince how to get strare prices and mo

Europe today

Scandinavia wili stay unsetti with snow showers in Norway and more snow over Finland and northern Sweden. Rain over the Low Countries will spread Into Germany. Austria and Switzerland stay mostly dry with few, if any, showers and some sunshine, North dull with rain at times, but the rest of France should be mostly dry and turnry, with little chance of any further snow in the east. The Mediterranean will be generall sunny aithough there is a chance of sional showers over Greece.

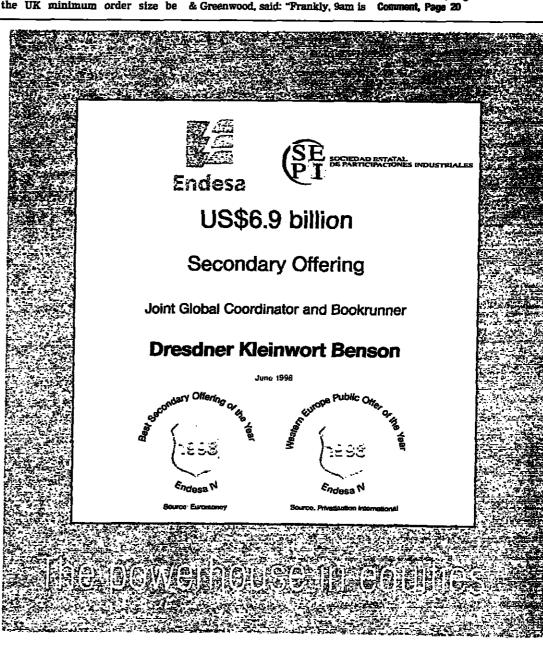
Five-day forecast It will stay unsettled in the north, with further snow for much of Scandinavia, and rain at times for

northern France, the Low Countries and Germany. By Thursday, there will be further heavy snow over the Alps, with much colder northeries. The end of the week should be

> POWER IS NOTHING WITHOUT CONTROL

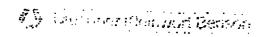
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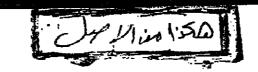
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To complete the privalisation of one of the largest electricity companies in the world, the market leader in Spain and a arowing force in Latin America, Endesa and SEPI chose a frusted pertner with a unrivelled record of success. The result

ationship approach, is what keeps ints coming back for more and is bohind our success as the internation







Part Five New organisational Monday March 1 1999 forms MANAGEME INFORMATION

FINANCIAL TIMES

Knowledge management Next week

Nothing else matters until your basic needs are met. However, it's easy to overlook obvious answers to your information technology problems. Our objectivity can help. It already has for four out of five of the world's largest companies. We never stop asking what do you need most? People and software for business applications.

COMPUWARE What do you need most? CHEST OF THE SECTION OF SECTION O

國 ERNST & YOUNG

IN A PLACE LIKE THIS, THERE ARE A FEW THINGS YOU COULD USE.

economy ひ じ 二 で I

STORMATION MANAGEMENT 15

And the mappe for

Marting then an attitue than a treat

Welcome to Mastering

INFORMATION MANAGEMENT

organisations. This is the fifth part of a weekly series almed at helping FT readers master the management of information and of the technology that c tures, stores, distributes and processes it inside and outside the

. 7

This week in the 21st century. The first erticle on pages 2, 3 and 4 is of countries in the 21st century. The first erticle on pages 2, 3 and 4 is of countries in the 21st century. The first erticle on pages 2, 3 and 4 is of countries in the 21st century. The first erticle on pages 2, 3 and 4 is of securities, but highly challenging, account of the so called "e-lance economy" by Thomas Malone and Robert Laubacher. Notwithstanding the current wave of big company mergers, the authors argue, large corporations are increasingly likely to fragment into flexible, temporary networks of electronically connected freelancers. Greater wealth, freedom So far in the series we have looked at the chapanies compete with ronment and at the issues which arise which arise with intermation, use IT inside their bust the series see the latest synopsis the supply chain (for full course). and creativity may well be the result, but disruption and dislocation are

On pages 4 and 6 David Oliver, Johan Roos and Bart Victor deel with a more familiar organisational phenomenon: the blurring of boundaries between industries known as convergence. Using the Swiss banking and insurance sectors as an example they suggest that corporate strategy in converging industries can be usefully understood by examining companies' "intellectual capital profiles". Management.
His work
focuses on how
telecoms and IT
can help people
work tagether.

among the dangers.

Achieving an effective global organisation in the age of globalisation remains an elusive goal for many multinational managers. Standardised information systems are one important "enabler" cited by the widely admired ABB but what can one learn from the experience of other companies which have recently embarked on such projects? David Feeny and Geoffrey McMullen (pages 8, 10) share some of the insights gained from a study of seven global companies: success rates, they say, are generally better than in the 1970s and 1980s but massive investment is required and the business benefits need to be clearly defined.

It is always good to be reminded of history and those intoxicated by new organisational forms should note Lynda Applegate's chronicle of past experiments. "Companies that adopted the hybrid designs of the 1960s and 1970s soon learned that the new structures and systems bred conflict, confusion, information overload and costly duplication of resources", she writes on page 11. The "networked IT revolution" of the 1990s, though, means that companies can now combine the resources of a major player with the adaptability of a start-up.

Finally, John Henderson and N. Venkatraman sum up a number of Issues discussed so far in Mastering information Management. They remind readers of a fundamental lesson of the series — that IT is no longer merely a "function" which boosts operational efficiency — and set out a framework for capturing its wider organisational value. As promised in Part One, this week we publish our first reader's letter

(page 10) and welcome further correspondence complementing or disputing points made by any of the authors. At the end of the series you will be invited to test your knowledge and skill with a competition Have you Mastered information Management? Please note that our website, www.ftmastering.com contains summaries of each week's material, plus additional background reading.

* You can e-mail us at editor.mim@ft.com or write to FT Mastering, 3rd floor, Number One Southwark Bridge, London SE1 9HL; for back copies please e-mail backissues.mim@ft.com or telephone +44 (0) 171 688 6323.

change

In October 1891, Linus Torvaids, a computer-science student at the University of Heisinki, made available on the internet the kernel of a computer operating system he had written. Called Linux, it was a rudimentary version of the ubiquitous Unix operating system. Torvaids encouraged other programmers to download his software - for free - and to use, test and modify it as they saw fit. A few took him up on the offer. They fixed bugs, thukered with the original code and added new festures, and they too posted their work on the internet.

As the Linux kernel grew, it attracted the attention of more and more programmers, who contributed their own ideas and improvements. The Linux community soon encompassed thousands of people around the world, all sharing their work freely with one another. Within three years, this informal group, working without managers and connected mainly through the internet, had turned Linux into one of the best versions of Unix ever created.

Patrick J.
Wedrath
Professor of
Information
Systems at the
MIT Sloan
School of

magine now how such a software development project would have been organised at a company such as IBM or Microsoft. Decisions and funds would have been established and assigned tasks. There would have been been established and assigned tasks. There would have been budgets, milestones, deadlines and status meetings – along with the accompanying turf vers, overruns and delays. The project would have cest an enormous amount of money, taken years to complete and quite possibly produced a system less valuable to users than Linux.

For many executives, the development of Linux is easily dismissed as an arcane tale of hackers and cyberspace – a neat Whred magazine kind of story, but one that has little relevance to the serious world of lig business. This interpretation, while understandable, is short-sighted. Many respected observers of the high-tech world view the Linux approach to software development – known as "open sourcing" – as a greater threat to Microsoft's lagemony than the US Justice Department's antitrust anti or the AOL-Aveisape merger.

What the Linux story really shows is the power of a new technology – in this case, electronite networks – to change fundamentally the way work is in the line and the Linux story really shows is the power of a new kind of business organisation that could form the basis of a new kind of economy.

The fundamental unit of this economy is not the corporation but the individual. Tasks are not assigned and controlled through a stable chain of management but rather are carried out autonomously by independent contractors. The fundamental unit of this economy to not the corporation but the individual. Tasks are not assignment.

Far from being a wild hypothesis, the e-lance economy is, in many ways, already upon us. We see it not only in the development of Linux but in the economy to the individuals. No one can ge organisations, we see it in the mercens and the productors. Even within large organisations, we see it in the second will be condened to understand to any exactly how inde

The hollow corporation

A future of temporary networks would seem to run counter to the wave of mergers sweeping the global economy. The headlines of the business press tell the story: "Compaq buys Digital"; "WorldCom buys MCI"; "Citibank merges with Travelers"; "Deimicr. Benaz acquires Chrysler", Yet when we look beneath the surface of all merger and acquisition activity, we see signs of a counter-phenomenon: the disintegration of the large corporation.

Twenty-live years ago, one in five US workers was employed by a Fortune 500 company. Today, the ratio has dropped to less than one in 10. Large companies are far less vertically integrated than they were in the past and rely more and more on outside suppliers to produce components and provide services. While big companies control ever larger flows of cash, they are exerting less and less direct control over actual business activity. They are, you might say, growing hollow.

Even within large corporations, decisions are increasingly being pushed to lower levels. Workers are nowarded not for efficiently carrying out orders but for figuring out what needs to be done and doing it. Many large industrial companies — ABB and BP Anoco are among the most prominent — have broken themselves up into numerous independent units that transact business with one

collaboration among people.

hardware: The magnetic, mechanical and electrical components of a computer and its peripheral

Strategic uses of IT

Why largo organisations are at a sustainable disadvantage

Aligning and repositioning IT in the business

Mass - ustomisation and IT
 Senior management
 prespectives on futormation
use and IT

Week nine March 29

hypercompetition: Aggressive form of conpetition in which companies constantly try to redefine the competences needed for success in a particular market.

Internet: The global computer network.

Intranet: A private network within an organisation, often protected from internet traffic by a "firewall" (software that controls access from

• LOSSARY

a specific purpose.

bandwidth: A nelwork's capacity to carry data.
business process re-engineering: An approach to corporate change which emerged in the 1990s; it involves analysing companies' core processes and reassembling them in a more efficient way, without functional divides.

chief information officer (CIO): The senior executive in a company responsible for information management and for delivering IT services.

client/server architecture: A network in which computer processing is distributed among many individual PCs (clients) and a increto powerful, central computer (server).

Clients can share files and retrieve data stored on the server.

collaborative software: Groupwere, such as
Lotus Notes or Microsoft Exchange.

computer-aided design (CAD): Refers to any
computer-enabled method of design; also
called computer-assisted design.

database: A software package for storing data.
data-raining: The process of discovering previously
unknown information from the data in data

data warehouses: A place — virtual or physical — in which business information is gathered.

e-commerce: business transactions conducted electronically, including over the internet.

enterprise resource planning: An integrated system of operation applications combining logistics, production, distribution, confract and order management, sates forecasting, and financial and HR management.

electronic data interchange (EDI): Transmission of documents via any electronic medium using a set of standard forms, messages and data elements.

e-mail. A system that enables computer users to send messages to one another's machines; ideally it should allow them to attach files and lift other users' mail addresses.

extranet: An extended intranet, based on internet-standard protocols, which allows access via the internet by people outside the enterprise.

groupware: Software that facilitates communication, co-ordination and collaboration among people.

Information systems (IS) strategy: The identification and prioritisation of systems of

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What underlies this trend? The answers lie in the basic economics of organisations. Business organisations are, in essence, mechanisms for co-ordination. They exist to guide the flow of work, materials, ideas and money, and the form they take is strongly affected by the co-ordination technologies available. When it is cheaper to conduct transaction, organisations grow larger, but when it is cheaper to conduct them externally, with independent entities in the open market, organisations sinal or shrink.

The co-ordination technologies of the industrial era - the train and the telegraph, the car and the fux machine - made internal transactions not only possible but advantageous. Companies were able to manage large organisations centrally, which provided them with economics of scalo in manufacturing, marketing, distribution and other activities. It made economic sense to control many different functions and businesses directly and to hire the legions of administrators and supervisors needed to manage them. Big was good.

But with the introduction of powerful personal computers and broad electronic networks - the economic equation changes. Because information

information technology (IT): The hardware and software that is used to process information. knowledge management (KM): A term with many meanings; it includes deliberate efforts to maximise an organisation's performance through creating, sharing and teveraging knowledge and experience from internal and external sources; see MIM 2 and 6. legacy system: An old database or other application, probably superseded but still

computers in a relatively small area network (Len): A network of

geographicat area.

ytus Notes: A proprietary software that ellows
users to share many different types of
unstructured and semi-structured information. Lotus is owned by IBM.

marketspace: The "marketplace" in e-commerce.
microprocessors: Compilex electronic circuits that
comprise a computer's central information
processing unit,
minicomputer (or "departmental computer");
A type of computer that appeared in the early
1970s; a stage in the evolution from
maintrames to PCs Inframe: The central processing unit of a large computer, usually receiving input from a number of terminals.

perating system: A program that marshals the internal operations of the computeritselt, allocating memory to work files, for instance, paradigm shift: Term used to describe a complete re-lithiking of the business or economic outlook, caused by a startling intellectual or technological discontinuity.

PC: It once meant "not IBM", then "not Macintosh" — now it refers to any personal computer.

platform: The sum of a computer's operating multimedia: A combination of sound, graphics, animation and video used to display information on a computer.

online: Having a computer and modern, or accessible by someone with such tools.

management

Knowledge

Week six March 8

Benefit-orientated approaches to KM

A laxonomy of KM
 Making knowledge visible in organisations

The rate of information in KM
 Chief knowledge officers –
 what is their rate?

Week seven March 15

The economics of e-commerce
 Business strategy and
 the internet

The distribution challenge of interactive marketing
 The crustal rate of trust and how companies can pain it
 Interactive consumer sensing

Electronic

commerce

system, hardware architecture and software. It defines the applications that can be run. program: A set of definitions and instructions that enable a computer to perform a protocol: The language that one computer uses to talk to another.

Coping with the people aspects

Virtual offices and richvorks
 Regulatory assues for the plobal marcuper
 Managing uso, not exclunitory
 Pergulo-friendly technologies

Become a knowing organisation

Now people makt to II chabled change

Week eight March 22

focuses on a company's internal processes and the interactions between utifierenit olements of the organisation. Analysis of it shows how and where value is added.

wide area network (Wan): A network of computers over a wide geographical area. worldwide web: an application which runs on the internet; it provides a standard way of publishing and accessing information. computer system.

value chain: Concept widely associated with the management thinker Michael Porter which software: The programs that are rull on a

Innovation and the learning

Week ten April 5

Sureding up and largeing idea generation
 How if can improve organisational learning

Why organisations
 Invo to lorget

organisation

Academic advisors

Tom Davenport, Boston University

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Guru/practitioner perspectives

Week eleven April 12

Grous of the Information Age
 The CEO perspectivo

● The CiO perspectivo

",Al) lesties subject to change

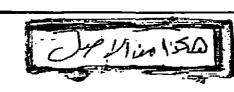
Conclusion

Week twelve April 19

Your guide to Mastering

This waself March 1 New organisational • n Managing IT in the business The smarter supply chain Competing with Information INFORMATION MANAGEMENT improving company Week four Feb 22 Week three Feb 15 Week two Feb 8 performance Week one Feb 1 TE janchry and newschallesion
The purchastor rups; of it making the rups; of it is Combined corporate powerful interest opening against the power Case studies: compoling with networks in the demand chain
 If and early supplier involvement Managing information in the marketspace
 Datamining Linking IT to business performance
 Why draw business is an information business. Why it's time to focus
 on the Lin II Improving the effectiveness of the IT function The delicate art of managing if protessionals Getting the CED/CID relationship right Strategic Implications of the new information economics Wenderdset poble is
 worth the bother?
 Chine reside and original control
 whelen businessed. Bypassing the distribution channel
 Enterprise systems and process change Competitive intelligence and information man agement — the best practices

Managing attention — how to get issenes to Historical perspectivo: from industrial age to information agu
 Case shuly Land Rover's Freclander infrastructure Eastern and western styles of information management
 Core information system capabilities Implementing IT rapidly in the supply chain



Continued from page 13
personalised hospitality service.

It's strongest impact on processes is its capacity fundamentally to change business capabilities, leading to the creation of new business models. Encyclopedia lightannics is in the midst of a serious business shift, in print modus to transfer its dominant position in print modus to electronic modin. Hallmark Cards is trying to straddic the physical space and the virtual space. New outrents such as Frirado (www.cirade.com) and Amerikado are challenging traditional atockbrokers. New-stylo auctioneers (such as www.chay.com and www.precifine.com) are challenging the traditional assumptions of suppiler—buyor relationships. Annzon.com has rocked book-retailing. Television notwork NBC is trying to create an entertainment plutform that is seamless across network ielevision (www.manbe.com).

2. Communities of practice
Value revilsation requires an organisational architecture that is able to co-entimate a community of professionals with complementary expertition.

The account principle for value creation clusters on the need for organisational with complementary expertition.

The account principle for value creation considering some resources and walling for results to appear. Now is it a metter of restructurality at Fragulating some resources and walling for results to appear.

Now is it a metter of restructurality the Tragulation with greater decentralisation and autonomy.

As IT becomes more important to business operations, the roles and responsibilities of those managed this critical resources should be reconceptualities of professional practice that are different from traditional haracticula and rule-bound organisations. Consider an organisation that its secking to impliement an entorprise resource planning system stations from one another and their business clients.

Consider an organisation that is secking to implement an entorprise resource planning system states and entorprise resource planning system (such as SAP to Chaelo for a supply claim or professional practice developing as same company (given sue of extornal venders and consultants). Or consider the developing ways in which exports in the professionals through the same companies are developing as some consultants. Or and organisation in the same responsible cut across organisation in the same responsible cut across organisation in the developing are gone organisation and organisation in the same organisation in the same responsible to the developing ways in which exports from bound by shared greats and organisation.

An example is the "transition alliance" faveloped such organisation or ordanisation for the community of companion are developing ways in which expense the formal values of the community of provide Xerox with a formal many formal and relayed to wide organization in minimized ways in which community the context of the c

3. Selective sourcing

Value realisation is unhanced by assembling the required IT capabilities through a portfolio of relationships that is adapted over time.

The third principle for value creation fucuses on

the need for selective outsourcing of IT through a variety of allumess and partimerships. This complements the communities-of-practice principle.

Given the tronnendura growth in IT products and services (sethmates suggest over 60,000 new productsents (sethmates suggest over 60,000 new productsents (sethmates that over 50,000 new productsents in the service introductions per year), it is unrealistic to expect any company to maintain the required ing stipulates that over organisation should arise in general as strategic approach to sourcing and assombilities in organic capabilities that differentiate its operations bing its required capabilities that differentiate is operations, while allowing partner, but which also included AT&T Solutions, Andersen Consulting and soliculed AT&T Solutions, Shell, Volvo, General Dynamics, Securities trading and other financial services.

J.P. Morgan is not unique. ABN-Amro, BP Exploration, Shell, Volvo, General Dynamics, Xerox, DuPont and others are all trying to optimise thour IT capabilities through outsourching. The challenge they face is to avoid thinking of outsourcing as a means of abdicating responsibility of set communications networks or data centres up and running. Others are more strategic, in that they drive business differentiation at types of capability.

Some relatorable and types of capability.

Some relatorable are set we set by simply to get communications networks or data centres up and running. Others are more strategic, in that they drive business differentiation at types of relationships for different levels and types of capability.

Bankers' Trust is selectively deploying a "venture capitalist" model to seed the development of the chnology-based capabilities that might be possible in future and entering into strategic relationships.

4. Knowledge infrastructure

The new economy is likely to reward intelloctual assots more than physical assets, value realisation requires the creation of a business platform suited to this environment.

There is widespread view that a new type of economy is energing, in which organisations will be less characterised by their ability to make, store and move physical assets than by their ability to create, share and use knowledge and expertise. Vincent Barribus of General Motors, for example, has described this as a shift from "make-and-sell" to "sense-and-respond". Jumes Wolfensen of The World Bank has proclaimed that his organisation needs to become "the Knowledge Bank".

If such aspirations are to be realised, companies will need to have the right information infrastructures which are designed to support operational efficiency – are proving to be imapprepriate. Thus the challenge is to design and deploy infrastructures that will serve as the backbone for the management of intellectual capital. Far beyond static databases for structured numerical data, these will emble viru-

4. Venkatramen s the David J. McGrath Jr Professor of Hanagement at Soston Jniversity School of Management and a research orincipal at the Systems

al work and the sharing of context-rich information. They will link individuals to an array of experiences, documents and lessons learned, blurting the distinction between "doing" and "learning". Companies will be able to mobilise their expertise anywhere in the world and bring it to bear on a specific problem or training opportunity.

While the community-of-practice principle focuses on the importance of expart teams, this one is about leveraging the knowledge contained in the whole organisation. We can see it in practice already, as many organisations develop the knowledge infrastructures that will sustain them well into the next century.

Schimmbergur's information Notwork (SiNet), for oxample, allows employues rapidly to download updated design tools (and tips for their use), enhancing their ability to solve customers' problems. The network has also been of benefit in training the company's soung professionals. The users to speciation's knawledge. As it increasingly have edge. As it increasingly have the edge. As it is borning. Training increasingly havelves multimedia shaulations. Sainsbury's, the UK auparmarket chain, has an "innovation centre" in which managers can explore new work environment tor knowledge sharing and town collaboration.

5. Strategic alignment

Value creation through IT rests on strategic allenness of the four principles discussed above; this is a dynamic process, as the changing business environment drives the ovolution of new organisation.

An overarching principle of value creation is that senior management should be able continually to align business and IT operations. An organisation's leaders should be able to integrate the four principles discussed of far in a way that is unique to the organisation. Otherwise, the four principles staken individually could lead to different approaches to value maximisation or even conflict with each other. Accordingly we have placed it at the centre of Figure 1, above.

Alignment needs to be seen in dynamic terms, as helping to guide the organisation into the information economy as well as guaranteeing efficiency today. Senior managers must ensure that actions guided by the four principles above are constantly adapted in response to a turbulent, intensely competitive environment.

Strategic alignment is made more important by the growing emphasis on managing intellectual capitul. Thus there is a shift towards creating knowledge infrastructures that also serve as platforms for superior product/service delivery. IT investments cannot be designed and implemented without IT (business impact principle). At the same time, one of the reasons for its success is its ability to learn about customer preferences and to redefine product/service offerings accordingly (knowledge infrastructure principle). Indeed, the rapid growth of the literine principle). Indeed, the rapid growth of the literine and inlies for integrating the four principles.

John C.
Henderson is professor of management information, systems and director of the Systems
Research Center at Boston University School of Management.

Not analysis but leadership
Realising the value of IT is not a matter of fine-tuning the IT budget process. Nor does it involve more roffned calculations of cost-benefit ratios, or looking for new metrics, instead it is a matter of leadership, of recognishing the new and powerful role of IT—not for greater operational efficiency through re-engineering but for value resultant hrough new lussiness designs. Value realisation is also a question of leading the organisation into the 21st century, where information and knowledge will be much more important drivers of business value than they are now.

Just us obtaining value from globalisation requires more than simply establishing a set of overseas subsidiaries, obtaining value from information means more than just buying powerful applications and systems. We hope that the five principles discussed in this article will generate constructive dialegue. They should allow managers responsible for IT leadership to move discussions of value realisation away from the selection of metrics and towards ways of creating and appropriating business value under under uncertain conditions.

ne e-lance econo

Summary

Although this recalls preindustrial economic models, dominated by large numbers of competinformation resources traditionally associated with large corporations. The power of e-lancing can be seen in the explosive growth of the internet, which is taking place without any overall Despite the wave of big mergers and acquisitions over the past year or two, the days of the big corporation — as we know it — are numbered. While the cash flows that they control are management. The role of the manager will change dramatically as companies see the virtue of achleving results by allowing them to emerge rather than by controlling them at all stages. ing microbusinesses, a critical difference is that these small, agile companies will enjoy the economy", which will be characterised by shifting coalitions of freelancers and small firms. In fact, say Thomas Malone and Robert Laubacher, we are moving towards an "e-lance Because modern communications technology makes decentralised organisations possible, growing, the direct power that they exercise over actual business processes is declining control is being passed down the line to workers or outsourced to external companies.

can be shared instantly and thexpensively among many people in many locations, the value of centralised decision-making and bureaucracy decreasies. Individuals can manage themselves, co-ordinating thair efforts through electronic links with other ing their efforts through electronic links with other independent parties. Small becomes good.

In one sense, the new co-ordination technologies enable us to return to the preindustrial organisational model of small, autonomous businesses. businesses with a workforco of just one or a fewiconducting transactions with one another in a market. But there is one crucial difference: electronic networks enable these microbusinesses to tap into the global reservoirs of information, expertise and financing that used to be available only to large companies. The small companies enjoy many of the benefits of the big without sacrificing the learness, if flexibility and creativity of the small.

In the future, as communications technologies advance and networks become more efficient, the shift to e-landing promises to accelerate. Should this happen, the dominant business organisation of the future may not be a stable, permanent corporation but rather an elastic network that might sometimes exist for no more than a day or two. We will is

The temporary company

From the 1920s to the 1940s the movie business was controlled by big studios such as MGM and Columbin. They omployed actors, directors, writors, pilotographers, publicists, oven projectionists—of all the people needed to produce a movie, get it into cinomas and fill the seats. The film industry was a model of big-company, industrial organisation.

By the 1960s, however, the studio system had hegun to disintegrate and power gradually shifted from the studio to the individual. Actors, directors and is studio to the individual. Actors, directors and scenaviters became freelancers and made their own choices about which projects to work on. Today, independent producers initiate projects, assemble finanching and bring together teams of frechancers to join temporary companies. Once at fine financial the company that made it goes out of existence, but its members, in time, join together er in now combinations to work on new projects.

The sbift in the film business from permanent companies to temporary companies shows how entire industries can evolve rapidly from centralised to network structures. Such transformer today are pursuing radical outsourching strategies and letting external agents perform more of their readitional activities.

An extreme example 1st the fashion accessories with the films of the fashion accessories.

but only three employees and never even touches its products through the entire supply chain. If contracts with injection-noulding companies to manufacture its goods; it uses design agencies to create its packaging, and it distributes and sells its products through a network of independent fulfilment viouses, distributions and sales representatives.

Another, broader, example is the textile fudustry in the Prato region of Italy, More than 15.000 small extile firms, averaging fewer than five employees, are are active there. These tiny firms operate state-of-the oped co-operative ventures in such areas as purchasing, logistics, and research and development, where scale economies can be exploited. Brokers, where scale economies can be exploited. Brokers, known as impaniator; act as conduits between the firms and textile buyers. The impaniatori help corordinate design and manufacturing by bringing together appropriate groups of businesses to meet the particular needs of a customer. They have even created an electronic market which allows textile production capacity to be traded like a commodity. Prato, however, is a relatively small and homogeness region. How would a complex, diverse industry operate under the network model? The variance is a relatively small and homogeness region. How would a complex, diverse industry operate under the middle of the 21st centrury, and see how cars, the archetypal industrial product, are being designed.

General Motors, we find, has split into several dozen separate divisions, and these divisions have outsourced most of their traditional activities. They are now small companies concerned mehny of freelance engineers and designers, who join together obyoner of new models of car. Numerous independent many, for example, forcus on engineers and designers, who join together ears. These design coalitions are automomous and self-organishing and all depend on a universal, high speed computer network for committee on inversal, high in vision may, for examples, organishing and halp with a vi

Many carmakers have been outsourcing more and more of their basic design work, granting ever greater autonomy to external design agencies.

A shift to an e-lance economy would bring about fundamental changes in virtually every business function, not just product design. Supply chains the needs of a particular project and disassembled when the project ended. Manufacturing capacity would be bought and sold in open markets. And independent, specialised manufacturing companies would undertake small batch orders for a variety of brokers, design shops and even consumers.

Marketing would be performed in some cases by brokers, in other cases by small companies that would own brands and certify the quality of the merchandise sold under them. In still other cases, the ability of consumers to share information on givenings. Fluancing would come less from retained earnings and big equity markets and more from venture capitalists and interested individuals. Small investors might trade shares in ad hoc, project-based enterprises via the internet. Business we would be in the function of management itself.

The transformation of management

In the mid-1990s, when the internet was fust entering the press was full of disaster stories. The internet, the press was full of disaster stories. The internet, the pundits proclaimed, was about to fall apart. Traffic was growing too fast; there were too many sites and too many people online. Demand would outstrip capacity and it was only a matter of months before the entire network crashed or froze. If never happened. The internet has continued to expand at an astonishing rate. Its capacity has doubled every year since 1988 and today more than 30m people are connected to it. They use it to order books, check the weather in distant cities, trade stocks, send messages and discuss everything from accept important business development of the past so years? No one. No one is in charge of the internet of grew out of the combined efforts of all its for users, with no central management. When we ask people whether they think the internet could have grown this fast for this long if it had been managed by a slugic company, most say no. Maneging such a massive and unpredictable explosion of capacity in massive and unpredictable explosion of capacity.

This week

Mastering INFORMATION MANAGEMENT

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THE COMME

file:

A Commission of the Commission

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All change for the e-lance economy

Thomas Malone and Robert Laubacher foreses a world of electronically connected freelancers. Strategies for converging industries Pages 2-4

link convergence in financial services to companies' "intellectual capital profiles". David Oliver, Johan Roos and Bart Victor Pages 4-6 global IS worth the bother? David Feeny and David McMullen

ls standardised

Identity the main Issues for managers Involved in organisation-wide IS projects.

Corporate structures can now combine the best features of the hierarchy with entrepreneurial flexibility, says Lynda Applegato. Pages 10-13 small the big sn company Time for

Five principles for making the most of IT

John Henderson and N. Venkatramen describe five princi-ples for extracting value from 17. Pages 13-14 GOVER ILLUSTRATION David Webster

or compresses of compresses of a set

Thinking about the future

Most of what you have just read is, of course, speculative. The future of business may turn out to be far less – or far more – revolutionary than the one we have sketched here. We are convinced, though, that while the e-lance economy may be a radical concept, it is by no measus an impossible or even an implausible one. Most of the necessary building blocks – high-bandwidth networks, data interelectronic currenc

What is lagging behind technology is our imagi-

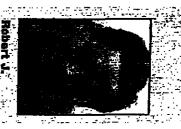
than a bird at the base of the pattern.

They are all equally essential to the pattern.

To meet the challenges of the future, it will be essential for us to recognise and to question the blases of our existing mindset. An e-lance economy might well lead to a flowering of wealth, freedom and creativity but it might also lead to disruption and dislocation. Free-agent workers, separated from the communal safety nets of today, may find themselves lonely, alienated and separated into "haves" and "have-nots". To seize the opportunities of this possible golden ago of business – and to avoid the potential problems – we need to think as y, creatively, and as wisely, as we possibly can.

This article is adapted from the authors' "The





Strategies for converging industries

Summary

Boundaries between industries are blurring. This process, known as "convergence", is taking place not only in high-tech industries but also in more traditional sectors, such as banking convergence is demand-driven; but when it is supply-driven, "like attracts like". with companies that have dissimilar (and therefore complementary) intellectual capital when employees and long-term investments. Generally, companies seek mergers and alliances one industry enhance the value of products from another industry, occurs when companies and insurance; in Switzerland, for example, a new bancassurance industry is emerging. customers. A useful way to understand corporate strategy in converging industries, say vergence", in which products from different industries come to be seen as interchangeable, strive to shape (or at least conform to) emerging technical standards. "Demand-driven con-These indicate the degree to which businesses focus on customers, internal processes, David Oliver, Johan Roos and Bart Victor, is to examine "Intellectual capital profiles" happens when companies attempt to provide broader products to increasingly demanding There are two types of convergence. "Supply-driven convergence", in which products from

The term increasingly used to describe what ppening within banking and insurance (as we between telecommunications and informatic chnology, road hauliers and reliways, and control in the properties of the control of

School Press.

I more closely resemble that of the IT, cable TV or flin industry? Will companies in the new baucassurance industry more closely resemble banks, insurance companies or something completely different?

We do know that different kinds of information are going to be necessary to make sound business decisions in converging industries. It makes little senso to try to understand these inclustries by analysing the "parent" industries in isolation. For example, unlike in stable industries, mergers and acquisitions in converging industries, mergers and acquisitions in converging industries systems and value chains. We have to throw away the old merger and acquisition way the old merger and acquisition rulebook to capitalise on the very different opportunities found in converging industries.

reading

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Mastering INFORMATION MANAGEMENT 13

each other and the market. Incentives are aligned because many entrepreneurial companies pay employees with equity, which enables them to share directly in business risks and rewards. As organisations grow, the cost of developing a shared perspective and aligning individual interests increases, as do the risks of misalignment.

In the traditional hierarchies of the industrial era, information moved slowly and inefficiently. Co-ordination costs and risks increased dramatically whenever decisions were made outside the direct control of senior management. As a result, the tendency was to minimise the risks by centralising decision-making, segregating activities and rigidly structuring work. Deep hierarchical chains of command enabled direct monitoring and supervision of work. Segmentation of work and suthority, together with direct supervision, ensured that, short of sabotage, no one had the authority - or opportunity - to perform an action that would threaten the entire company. But this consistency and control came at a cost.

As companies grew larger, employee self-interest and compilance replaced commitment, shared understanding and motivation. Real-time information on business and market dynamics was also lost. As the situation reached a crisis during the 1980s and 1990s, many large, traditional companies embarked on radical restructuring. Layers of middle management were removed and operations were simplified. Recognising that decision-making needed to be "close to the action", many companies "empowered" their employees to make decisions on the line.

in doing so, they violated major assumptions of the line.

In doing so, they violated major assumptions of the hierarchy. Authority no longer flowed in a clear, unbroken line from the managing director to the line worker. Bosses were no longer held directly accountable for the decisions and actions of direct reports. And, most importantly, authority was not carefully segmented to ensure that senior management could directly monitor high-risk strategic and operating decisions. The collapse of Barbigs Bank in the mid-1990s, after a derivatives trader in Singapore, far from the watchful eye of senior management in the UK, lost \$15n, served as:

a wake-up cell for many large companies.

In the information throughout the company (and among customers, suppliers and business partners) can reunite the perspective of senior management with the perspective of those who act as "agonts" (inchiding those outsido company bomniaries). Shared incentives (such as toam performance bonuses and employee stare ownership plans) augment shared authority and help to realign individual, team and organisational interests. This emables large companies to empower entrepreneurial operating teams to make decisions and take actions on behalf of the company.

What keeps these teams from making decisions or taking actions that could harm the company? Recall that, in entrepreneurial companies, illo founders are involved in all decisions and actions, leedless to say, senior managers in a bly multinnitonal cannot provide this direct supervision. Instead, they need to ensure that early warring systems are involved by allocal fuelty and ensure that senior management identify key strategic risks – which I call "critical failluro factors" – and ensure that effective monitoring and risk management systems are in place. Frequently, IT is used to set the control parameters and to monitor high-risk activities in some cases, direct supervision of authority are required to manage areas of extreme value of the control parameters and to monitoring areas of e

Setting appropriate boundaries must be accompanied by active management of the company's value systems. The importance of this was summed up by Wayne Calloway, chief executive of PepsiCo, in speaking about the company's transformation during the 1980s and 1980s. "We've made many changes." he stated. "But, it's all pulled together by integrity. What we mean by integrity is not just honesty; it's openness, trust, sharing rewards and sharing responsibility.

Value realisation lies in the design of new business models that are enabled by IT and in the design of product/service platforms for the information age.

Every company's products and processes will become increasingly information-intensive and linked through communication and data networks. So we cannot and should not look at the value of IT just from an operational efficiency perspective. Some IT resources will be directed at enhancing

1. Business impact

Five principles for making the most of IT

Summary

expertise", for which "command and control" management is inappropriate. Third, as we have seen earlier in this series, the growing complexity

systems requires the establishment of cross-functional "communities of

vices and business processes. Second, successful implementation of IT ational efficiency. It can profoundly change the nature of products, ser-

and N. Venkatraman they need to adhere to five principles. First, they must understand that IT is far more than just a means of boosting oper-

maximise its potential to create value? According to John Henderson being a central part of competitive strategy. But how can companies IT has gone from being a separate, rather arcane business function to

This paper is adapted from material published in Applegate, L.M., "In Search of a New Organizational Model: Lessons from the Field", in Shaping Organization Form: Communication, Connection and Community, ed.
DeSauctis and Filko, Sage Publishing, 1999.

c are in the midst of profound shifts in how corporations are structured, how markets function and who delivers superior value to customers and shureholders. We need to rethink the role of information systems and technology: from morely supporting business operations to boing central to core capabilities; and from an internal, operational focus to an external, customor focus operational efficiency while others will be directed at creating business differentiation. Product or service features will be fused with underlying information system capabilities and every business process will be anchored in unique information attributes. The executive challenge will be how best to trade off the different ways in which IT can have an lapact on the business.

Jack Welch, chairman of General Electric, put it well in his 1996 letter to shareholders: "Information technology is making the huge transition from the function" it was in the 1990s — with its own lunguage, rituals and priesthood — to the indispensable competitive tool, the central nervous system of virtually every operation in the company." It Managers across a wide variety of industries and inarkets now realise that information systems and technologies will be an important driver of strate. However, companies are confounded by the complexities and subiledea involved in loveraging it resources. How best to extract value from 1" is not the most appropriate value metric. It is a question of creating a new management approach that is suited for the information age, rather than simply overlaying IT's potential to create value indications. Healising IT's potential to create value that semerged as a senior leadership issue and cannot be declegated to lower operating management levels. Senior management teams and boards of directors are giving more attention to IT than ever before. Pased on our research and consulting experience with large companies on both sides of the Atlantic, we have distilled a set of five principles for effectively capitalising on the value of IT. These are sellennatised in Figure 1 on page 14.

the power of IT consists in enhancing product/sertile he power of IT consists in enhancing product/service foatures. Think of the potential for enhanced
sorvice when appliances such as tonsiters, refrigerof ators, televisions and copy machines are connected
to a (domestic) network. Take the case of the latust
degrammable 8-bit computer housed within a large
large brick. Its software runs under Windows 95
and the user can program it to perform an earliess
variety of tasks.

Or consider the OnStar system that General
Motors is instabling in many of its vehicles. This is
an information service, available for a fixed fre,
that uses Global Positioning System satellite technology and a lands-free, voice-activated cellular
phone to link the driver and vehicle with a call centre. Advisors provide real-time, person-to-person
services such as automatic detection of sir bag
depioyment (and alerting of emorgency services),
stolen vehicle tracking, route finding, romote diagservices and remote door unlock.

Processes

Business processes are also becoming more information-intensive. Companies can achieve greater supply-chain efficiency through better use of information. Wal-Mart, Dell Computers, National Semiconductor, Gup, Motorola and others are continually improving their operating efficiency through knowledge-intensive logistics. These allow rapid modification of supply-chain processes through real-time processing of information.

Superior customer service is still focused on person-to-person interactions but is considerably enhanced when supported by appropriate information systems. Customer service in British Airways, if for example, is supported by its Caress system. Ritz-Carlion uses high-tech systems to support its

another and with their corporate strategles in a fast-changing world

importantly - managers must strive to align these principles with one

edge locked within them and focus it where needed. Finally - and most

of the IT market means that selective outsourcing is essential. Fourth, companies must ensure that their IT infrastructures maximise the knowl-

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wortvation, they are also hampered by their local view of the business.

At upper levels of management – whore authorty the wide change – quick response is humpered by the wide change – quick response is humpered by the wide change – quick response is humpered by the wide change – quick response is humpered by the wide change is needed the tack of timely, areatated what must be done. In it radditional hierarchies, management cycle, Senior and changes most amount yourly fushiness planning and in traddisting, and quarterly reparting cycles. Senior hundress most amusulty to set organisation-wide performance tragels, which are then everyoned performance tragels, which are then everyoned in the form must material and ranked performance in trages. Financial and marked performance in the log must sunderstitud what has happened in the form hustness environment to cause it trainings are nected, "to response offectively, man of canding utkes time." Thus, hierarchical control is any effective in relations of the horizon in the information for the falled, think uniters is any effective in relations of the performance overyone in the information and tecision making loop. Entreprenential companies along hundress environment by the company is achieving its gonis. In a traditional onterprenential companies of poorations and management is based on daily performance reviews to monitor whether the company is achieving its gonis. In a traditional onterprenential company is achieving its gonis. In a traditional onterprenential company is achieving its gonis. In a traditional onterprenential company is achieving its gonis. In a traditional onterprenential company is achieving its gonis. In a traditional onterprenential company is achieving its gonis. In a traditional onterprenential company is achieving its gonis. In a traditional onterprenential company is achieving its gonis. In a traditional onterprenential company gots in the processes are close to mean of the processes are close to the mage of the interprenential control. As an

work.

It plays a critical role, it can co-ordinate complex, fast-cycle operating processes and, more importantly, give decision-makers access to detailed, real-time information about operations. It can also link this information with real-time performance and market information providing a detailed understanding of bushness dynamics.

These fust-cycle, information based central systems resemble the cyberaletic control systems in emple fault-tolerant operation of missile guidance systems; air conditioning systems and nuclear reactors. Such systems can run on "autophlot" if the puramuters for successful control over known with certaining and programmed in. If conditions veer beyond these parameters, early warming systems consider human intervention. In organisations to changes often involve more than one until and more than one organisational level. Communication making teams to engage in timely diologue to degermine what course of action to take.

Once the information services in the opportunity to make it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity to me it, they can quickly evaluate and opportunity. All this point, organisational evaluate and opportunity.

reading Further

Figure 2: The IT design challenge

Noten, R., Pollack, A. and Ware, J. (1998) "Creating the 21st-century organisa-tion", in Statie by Stage, Noten Norton Research Report 6 (4).

Perrow, C. (1992) "Small company networks", in Nehria, N. and Eccles, R. (cds) Networks and Organisations, Boston, MA: Harvard Busineso School Press.

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Figure 3: The emerging information age organisati

Reich, R. (1991) The Work of Nations, New York:
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(1991) "The networked organisation and the management of interdependence", in The Corporation of the 1990s, New York:
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principals and agents share the same perspective on the husiness, are inclivated to accomplish the range goals, and possess the expartise and information required to make good decisions and take appropriate actions.

In the traditional entrepreneurial organisation, owners and employees work as a team. They share the same information about and perspective on the business because they are in direct contact with structures, co-ordinating mechanisms, decisionmaking responsibilities, compensation, incentives and sanctions that define the distribution of power and accountability within a company. In thinking about organisational authority it is helpful to view the company as a network of roles and relationships that unite principals (owners and senior management) and agents (those individuals ow strategy. The challenge in designing effective but

Managers have made significant efforts during the the past two decades to reorganise to meet the challenges of operating in a nore dynamic, hypercompetitive world. But as the decade draws to a close, many are facing the grim possibility that the 21st century will demand even more radical charge. As the internet redefines markets, Industries and organisations, companies must respond even more quickly, deliver even better products and services, and cut costs even more deeply. Layers of management have been cut and spans of authority increased to the point where many worry that their organisations will spin out of control. The assumptions of traditional organisations will spin out of control. The assumptions of traditional organisations will spin out of control. The assumptions of traditional organisations with crisis mental and the cut expression of the thint.

Crisis is a precondition for the emergence of a new theory or model. But when presented with crisis, most people do not immediately reject existing models. Instead, they attempt incremental adjustments that, over time, begin to blur the fundamental structure and assumptions upon which the old models were based. Practitioners are often the first to lose sight of old models as the familiar rules for solving problems to the them of the none point, total reconstruction is required. During the transitional new models. But no matter which is used, there is a decisive difference in the modes of solution.

This uppears to be the point at which we now find ourselves. A crisis, largely driven by a fundamental mismanch between environmental demands and organisational capabilities, has called into question many of the assumptions of traditional organisational mannagers in power of taduy's technolugies in the hands of a more knowledgeable work orce.

Sometimes the right answer is deceptively simple. No matter how basic or complex your information technology problems, we can resolve them, just as we do for four out of five of the world's largest companies. We never stop asking what do you need most? People and software for business applications.

COMPUNARE A hedge trimmer. WHEN YOU FIND YOURSELF IN A PREDICAMENT LIKE THIS, THERE ARE CERTAIN THINGS YOU NEED. הסלומיצאיינקרוטה (270 ב-25 (255) ביאל מבק (275) הבבאל (275) הבבאל (275) הבנוער הבנוער (275) הבנוער (275) הבנוערה (275)

Two different forms of convergence appear to be occurring in many industries. The first - which we refer to as "demand-driven convergence" - occurs where customers start to consider products offered by separate industries as interchangeable. For example, in the 1970s mainframe computers and minicomputers each performed separate tests: mathematical computers as therchangeable. For example, in the 1970s mainframe computers and minicomputers each performed separate tests: mathematical computers and minicomputers each performed separate tests: mathematical computers and minicomputers from different industries work better together than they do separately. We call this "supply-driven convergence" and it occurs when each of the combined whole. For example, the development of video garnos has increased the value of the combined whole. For example, the development of video garnos has increased the value of the combined whole. For example, the development of video garnos has increased the value of the combined whole. For example, the development of video garnos has increased the value of the combined whole. For example, the development of video garnos has increased the value of the computer. Ilm and cable TV Industries, and vice versus. A different rationale lies behind each type of convergence. Demand-driven convergence is often driven by the need to acquire particular resources to provide broader-based products to the resources to provide broader-based products to the resources to bundless of the part of the was able to bundle some of its existing products (such as image processing technology). Where demand-driven convergence is occurring, companies with broad scope operating in many different areas – can creative by bundle diverse products together and win against larger but more narrowly focused orderences of the standard. Once a technology "rocke in the more competitions of other and the standard. Once a technology "rocke in the such to be such of the world collars in the world of financial services, in particular,

Bart Victor is professor of organisational behaviour of special reas of special reas or special reas organisation outlomisation.

Our research has focused on a significant convergence that has been taking place on the boundary between banking and insurance - the development of bancassurance. There is as yet no English equivalent for this Franch neologism but this may change before long; as regulations governing banking and insurance change around the world, the boundaries between these two industries can be expected to continue to fall.

Switzerland has recently seen a flurry of activity in this area of bancassurance. In 1986, after two years of alliances with Swiss Reinsurance, Credit Suisse - the country's second largest bank - began incurrer; the two companies merged the following year. The resulting Credit Suisse Group had a market capitalisation of over \$330n and briefly became the largest player in Swiss financial services.

It was eclipsed just four months later when the Union Bank of Switzerland and Swiss Bank Corporation, the country's first and third largest banks, announced their morger. This put an end to speculation that the two would acquire insurance companies; the speculation had been driven by the fact that UBS had a joint venture with Swiss Life and SBC a cross-selling agreement with Swiss Life and SBC a cross-selling agreement with Swiss Life and SBC a cross-selling agreement (SBC). These activities are part of a larger effort to create the hadustry itself if the players succeed in doing this, they will be able to dominate the new industry: if they fall, the convergence point in financial services will be found elsewhere.

among the numerous convergence failures, such as IBM's acquisition of ROLM, Sony's acquisition of Columbia Pictures, or AT&T's acquisition of NCR? Let us see how intellectual capital profiles can help us grasp what is going on.

financial results such as profitability, growth, operating income and shareholder value

2
Human: value creation by individual employees individual competencies and capabilities important in providing solutions to customer problems; includes training and development related to individuals, employee satisfaction and turnover

3

Process: value oresitor through processes

The efficiency of internal processes, for example, cycle times, productivity, critical technologies, information systems, administrative systems and processing time

Customer, value creation through customer relationships
The strength of relationships with existing clients, including market share, customer partnerships, service and customer satisfaction

S Renswal and development value creation through investment in the future.
Investment made to develop future human and structural capital, such as the ability to innovate and learn, new products launched, and expenditure on long-term competence development.

The human, process, customer, and renewal and development focus areas make up a company's IC. Each area has a range of managerial tools and prescriptions for improveng it (such as total quality management to improve processes, total customer service to improve customer relationships and so on). Organisations have to pay at least some attention to all of the focus areas.

We tracked all publicly announced change actions made by organisations in the Swiss banking and classified each action into one or more of the IC categories depending on which focus area it addressed most closely. We then developed an "IC profile" of each company based on the emphasis they placed on each focus area during the period studied. These profiles – which we call "IC-DNA" – were different for each company. We studied the mergers and alliances that have occurred in the light of the IC-DNA of the companies concerned.

What is happening in bancassurance?

Our early results reveal some interesting p in the emerging Swiss bancassurance induboth demand- and supply-driven convesupeers to be taking place. The

esting patterns
ce industry, as
convergence
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Organisations have value that does not appear on any balance sheet. When IBM bought Lotus, it paid seven times Lotus's published book value because of its millions of customers, intensive research and development, strong market position and brand nams. Measuring these non-financial indicators or "intellectual capital" (IC) — may give us a better understanding of where companies are investing their money. It can help us glimpse what is going on in organisations behind their financial statements.

Are there any ways to compare IC investment across companies and entire industries as profiles of different kinds of non-financial capital. Some companies focus a great deal on their customers, some on their internal processes, some on low they appear in their financial statements.

Skandia, the Swedish insurance company, has developed a framework for measuring its IC, called the Company's capital into the following five categories or "focus areas":

When operating in a demand-driven convergence environment, you have to find ways to extend your competences across industry boundaries. This involves forming partnerships with companies that have complementary assets (or, as we put it, companies that have iC-DNA patterns very different from yours).

In the Credit Sulsee-Winterthur merger, the identities of the two businesses in the merged company have been retained. The merged company even folded Credit Sulsse's old life insurance business (Credit Sulsse Life) into the Winterthur Life business unit to strangthen the company's insurance arm. The objective should be to capitalise on the merged company's diversity.

When operating in an industry characterised by supply-driven convergence, you have to find ways to gain scale in all parts of your value chain (for example, distribution systems). This can most effectively be accomplished by choosing alliance partners that have compatible assets (that is, with similar IC-DNA to yours).

In the UBS-SBC merger, the merger itself proceeded quite quickly, and the two banks immediately moved to adopt a single name (United Bank of Switzerland) and identity. The objective should be to make the merger as fast and painless as possible to to reap the economies of scale quickly.

Because speed is increasingly seen as the key to competitive advantage, the dream is to Managers today are fascinated by new organisational possibilities for their companies.

Summary

Time for the big small company

s Sulsase-Winterthur merger can be considered an forampile of demand-driven convergence. The goal of this merger clearly was not cost savings, which were estimated to be a modest silom (malny generated through better use of office premises, reduced IT and telecommunications costs, and the shillty to develop businesses jointly in high-growth markets). All son predicted job losses were to occur through attrition.

The real motivation for the merger appeared to be the two companies' desire to share their customers new products that they could combine the insurance company's employee benefit services with the bank's asset management skills. According to this perspective on convergence, the key success factor for the new company will be its ability to offer products that they could combine the insurance.

The UBS-SEC morger, on the other hand, represents supply-driven convergence. These companies appeared to be following a business model whose objective was to generate economics of scale in our study with the malor increases in market share. These sconomies of scale on the other hand, represents supply-driven convergence. These companies and ultimately feed major increases in market share. These sconomies of scale on the other hand, represents economically and the production of the production

marry the resources and reach of a global player with the adaptability and speed of a start-up. Such ideas are not new; as **Lynda Applegate** points out, companies in the 1960s experimented with new organisational structures such as the matrix which were intended to achieve very similar alms. Unfortunately, the volume and complexity of information flows required by such structures were too great for the information systems of the time, so many companies reverted to more traditional hierarchies. Now, however, advances in IT mean that new models can work. Complex operating processes can be accelerated and information about them — and about company performance in the market — can be fed back in real time to all levels of the organisation; the perspectives of senior managers and employees on the ground can converge. This shared understanding of the business, combined with

uitably aligned incentives, makes the "big small" company feasible.

Figure 1: The organisation design challenge

One of these hybrid designs - the matrix - was originally billed as the "obvious organisational solution" to the need for control and efficiency, while simultaneously enabling flexibility and speed of response. Decades ago, proponents of the matrix argued for an "adaptive, information-intensive, team-based, collaborative, and empowered" organisation - all characteristics of the new 21st-century organisation heralded in the business press.

But companies that adopted the hybrid designs of the 1960s and 1970s soon learned that the new structures and systems bred conflict, confusion, information overload and costly duplication of resources.

Given such problems, we might legitimately ask, "If these hybrid organisations falled in the past, why are we trying this again?" Interestingly, one of the mator sources of difficulty with the matrix was the dramatic increase in the need for timely information to manage it successfully. While the hierarchy managed complexity by minimising it, the matrix demanded that managers had to co-ordinate their plans and operations with functional managors. Country managers had to co-ordinate their activities with headquarters. And sentor managers, attempting to reconcile overall organisational performance and plan corporate strategy, were faced with a dizzying array of conflicting information. In the large, hierarchical companies of the 1960s and 1970s, information moved slowly and channel the computer systems of the day were designed to sup-

port centralised information processing and hierarchical communication channels (see Figure 2 on page 12). The microcomputer revolution of the 1980s provided tools to decentralise information processing – which helped improve local decision-making – but the technology to support both local and enterprise-wide information sharing and communication was inadequate.

Only recently has IT become capable of meeting this challenge. The "networked IT revolution" of the late 1980s – reflected in the emergence of the internet, electronic commerce and increasingly integrated, powerful and flexible databases and business systems – has made possible information processing and communication infrastructures that match the requirements of companies wishing to operate as if they were both big and small.

Most of the remaining problems are organisational. Although the networked IT infrastructure can provide important tools, it cannot define the information that needs to be in the system. It can enable new organisational structures and systems but cannot motivate people to use the information to make decisions and take actions on behalf of the organisation.

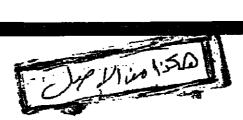
Creating the

information-age organisation Managers are caught in a dilemma. The organisational designs for executing their complex strategies depend upon a much more dynamic, networked approach to managing and communicating

Over the past few yours it has become very clear that speed counts. New products must be introduced ever more quickly, order fulfilment cycles must be cut dramatically, and unaragers must create agile organisations that can turn on a sixpence. But the faster one goes - in an organisation as in a car - the harder it is to keep control and to sniticipate and respond to changes in one's situation.

The faster the pace, the greater the need to monitor business operations closely and to lawe deep understanding of market, industry and business dynamics. But many believe that it is impossible to design a company for both control and agility. Understanding the fundamental principles upon whitch organisation at the transmitted by two tightly integrated sets of processes. Operating processes are activities that deline how a company designs, produces, distributes, markets, sells and supports its produces, distributes, markets, sells and supports its produces and services; common operating processes include procurement, product design and devolopment, order fulfilment and customer service. Management processes are conditions; common management, product design and devolopment, order fulfilment and controls operations; common management, processes and coordinates and controls operations; common management processes must be integrated and synchronised. Thus efforts to reduce operating cycle times (for example, order fulfilment cycles) must included parallel efforts to reduce operating cycle times (for example, order fulfilment cycles) must included parallel efforts to reduce management in a traditional horarchical organisation, operating because of the processes are controlled through standardization of processes are controlled through standardization of processes into distinct sequential steps, and direct supervision of the people who are carrying out the work. Line employees are controlled in what they can do to respond. Not only do they lack the necessary authority and control are limited in what they can do to respond.





MASTERING INFORMATION MANAGEMENT 11

MANAGEMENT MOUNTAINED MANAGEMENT

When new and complex systems are implementially when new and complex systems are implementially be deferred businesses (or scores of mallonal subsidiaries) the time required will be anotherized in years not months. It is thorsfored all measured in years not months. It is thorsfored all measured in years not months. It is thorsfored a sumealistic to assume that shings executive will unstany the course or champion; instead, a succession of champions must be planned, and how many able volunteers will be found to join the project team? Whereus being part of a high-profile, six-month local prospect can be careed or channeling, theappwarting to another country for several years is a different prospect.
 ◆ Chobal time differences are a daily problem in addiressing such as video-conferencing can habby there is no multually sociable working hour that links Europe, the US and Australia.
 ◆ Ghobal IS projects are avenably associated with shifts in organisational power that are more easily there is no multually according charts than in organisational miniscus and culture. Project governance and clampionship arrangements may be exhaustively scrutinised for various shades of political correctness. The implementation of data standard as officious meddling or a costly irrelevance by the Brazilian factory management.

While project management leaving has dramatically improved the track record of global 18 projects, they continue to demand high lovels of management ability, time and attention. They clearly are not to be undertaken lightly.

Software packages software has little obvious impact on these success factors, it is clear that most global is projects are based on the available ERP systems. Comments from our research suggested several advantages to this approach:

• It short-circuits potentially lengthy debates about functional requirements; what is required is what is in the package.

It frees people to focus on the challenges of project implementation rather than programming.
 It emphasises and assists the creation of standard global business processes.

• It assists the achievement of data standards (interestingly, this related more to older centralised software such as SAP R2 rather than distributed software such as SAP R3).

Reader's letter

KEEP INFORMATION MANAGEMENT SIMPLE

The good news is that the FT is publishing a series on "Mastering information Management"; the bad news is that it will take 12 issues to do it. Isn't there a slight contradiction here -- 200 pages of information to help executives already contused by groaning in-trays?

My own experience of dealing with information has provided a fundamental principle: information is needed to make decisions. If information is looked at from the point of view of decision-making, "information users" can start digging themselves out of the pile of largely irrelevent burnf on their desks by asking the question, "What information do I need to make those decisions which enable me to reach my tergets?" The enswer inevitably gives rise to the "80;20 rule": 80 per cent of the information received is irrelevent and only 20 per cent of the information required is available.

The answer should also highlight the other areas that give rise to the mismanagement of information; timing and accuracy. How much information, usually pro-information is demanded "by yesterday" when no decisions are based on it today, tomorrow or ever? How much information, usually pro-duced from a spreadehest, is guoted with inpossible levels of accuracy? How many of us have seen sales figures forcest to the nearest 0.1 per cent – for 2002? With prodictive abilities like that the information provider should have wen the lottery.

My advice to information users and confused executives would be to clear enough space on their desks for a blank sheet of paper and write on it their targets, the decisions required to meet those targets, and the information needed to make those decisions. If this prove difficult, 12 supplements to the FT aren't going to be much help.

These advantages arguably increase the chances of successful project completion. However, none of the companies in our study claimed that the erner gence of ERP systems has reduced project costs (indeed, we find no evidence for this anywhere). Issue number two for managers, therefore, is to understand that, with or without ERP, global 1S projects require massive investment.

Business benefits

bonofils have been and can be achieved through guch investments. As projects move towards concludes many corporations, this is the issue most under serutiny at present.

Our research case studies were all self-roporated successes that in most of them "success" was not sharply defined, benefits reported insiduded "into-graded information!", "year 2000 compliance", specialic operational that fature software maniferant and a general expectation that fature software maniferant and a general expectation that fature software maniferant and a general expectation that fature software maniferant in the second maniferant in a common systems have inspectation that the many on a belief that it is a necessary opasitive to achieve them. Yor man, it is seems, the implementation of a common systems have the been something of an act of faith (or "broad studies been something of an act of faith (or "broad studies been something of an act of faith (or "broad studies been something of an act of faith (or "broad studies been something of an act of much in the mercan opasities of some yet-to-be-defined the mercan opasities of some yet-to-be-defined the responses to the capability in place. We question the opasities to the cutter, each of these companies had targeted a special and provide much more definite responses to the crust projects in terms of now systems infrastructure.

Two of our cases studies were distinctive, and crust projects in terms of more case, the chief executive had itargeted a special and projects in the publication of procurements are particular to product cost restructuring, this company's project was the company had an even clearer imperative: it had been rold that it would be sell as a critical lover for product cost restructuring, this company's project was the company had an even clearer imperative; it had been rold that it would be would not was the other companies. And there is one final point of difference neither and their cure in the project of the companies of their cape in the chie

The Both century building and perfecting the believe the press, however, thoy are now busing the hierarchy perfection or granisations I was now busing destroying it, proposing in its steal "heaveyfed", process-orientated", "loarning", "loarning", "loarning" it is steal "heaveyfed", process-orientated", "loarning", "loarning", "loarning of the orientation or companion or found, the 1st steal "heaveyfed", process-orientated", "loarning", "loarning of the orientations in our companion or found, the steal or steal or the feet of the orientation or the orientation of the orientation or the orientation of the orientation of the orientation or the orientation orientation or the orientation orientation or the orientation orientation orientation or the orientation orientation

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worth the bother? standardised global IS

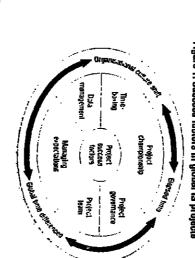
Summary

systems has also helped managers to focus on implementation instead of debating data standards and common business processes. The authors conclude with a discussion of the business benefits. Strikingly, of seven multinationals that they studied recently, only two – for senior business managers to support such projects and for stakeholders' involvement and expectations to be carefully managed. The emergence of "enterprise resource planning" which undertook their global IS projects to support specific strategic objectives - were able due to better project management; among other things, companies now recognise the need have had much success. According to David Feeny and Geoffrey McMullen, this is primarily information systems. But it is only in the 1990s that projects to put such systems in place Managers in multinationals have long recognised the desirability of standardised global to articulate substantive benefits.

in is seen as imperative. For example, of ABB, which has been widely admired at the 1908, consistently eite its simulation waterns base as one enabler of its innovalorgenisation.

More recently the picture has brightened, with the emergence of applisticated "enterprise resource planning" (ERP) software from a number of suppliers. It has become the norm for multinationals to adopt such software as the vehicle for global standardisation across business units, as It is clear that the efforts required to achieve such standardisation are formidable. Virtually all attempts of the 1970s and 1980s – based as they were on in-house development of systems that addressed the combined needs of multiple business units – ran expensively and embarrassingly into

for functions within units, Projects to deploy global standards are now regularly reported as completed in rather than aborted. But the investment required apparently remains large - tens or even hundreds of millions of dollars of external expenditure on software and consultancy. Is this inevitable? And in what terms should we evaluate the prize that any have been won?



Targeting global IS initiatives

◆ There would be a major business edvantage if research and development, which was centralised, could be devolved to create a "close-to-the-market" presence in each region; but close co-ordination across the regions remained imperative to avoid wasteful duplication. Figure 2: Targeting global IS initiatives

• No value had been added by the centrelisation (in the name of globalisation) of the logistics function. It needed to be devolved to the regional level.

 The consolidation of manufacturing from netional to regional level had adventage in increased co-ordination, focused on the transfer of learning While the sales function inevitably had to operate close to the customer, it was becoming essential to establish / account inanagers to co-ordinate activity with customers who were becoming global. had been appropriate. There

astry.
projects that
upport world-

Project success factors

issue number one is understanding why these projects of the 1990s seem to be so much more successful than their predecessors of the 1970s and
1890s. This is not so much a story of technological
advance as one of project management learning.
Six factors are crucial to success in any 18 project (see Figure 1). These are prodominantly managerial rather than technological in nature and
recognise that:

The "project champion" should be part of a wider project governance structure which can ensure the involvement and commitment of all stakeholders affected.

Most "IS projects" are in fact properly posimed as business change projects, they must erefore be visibly championed by senior busises line managers who have authority across the main of change.

 The expectations of all those who will be affected by the project need to be proactively managed to ensure that they understand the nature, extent and timing of change. Project teams need to be multi-disciplinary in nature and staffed by the most able (rather than the most available) people from the business and from the IS function.

O Very few projects are delivered to "green field" sites; most must be designed to connect to a heritage of other systems and processes, and so data definitions and data management across boundaries are essential.

ERNST & YOUNG

Continued on page 10

Connect the dots. Problem 3 85,000 minds Solution 0

Recent months have seen many upheavals within the industry. But the pace is unlikely to falter, with the focus on Japan, says Haig Simonian

Pundits predicting an month, that will give Ford interest, arguing its hands eventful year for the motor an almost unrivalled portform were full implementing its industry could hardly have lio of upmarket brands been more right. But even including Lincoln, Jaguar the most self-confident seer barely hinted at the astonishing events of early 1999. Now, only the bravest dare to expatiate on how matters in the kitty even after the will end.

recent weeks were broadly predictable. Further consolitive, still have cash to spare. dation among suppliers was a one-way bet. Expecting the uneasy hierarchy of world tyre makers to fissure as Asian manufacturers felt the dismissed reports of interest

Even prophesying more mergers in cars and trucks did not require a Nobel lau- most observers' next takereate. Bob Eaton, co-chair- over target. man of DaimlerChrysler, may really have known something was afoot when, at January's Detroit motor show, he forecast a big deal within 90 days. It was, after all, his group's decision to join forces with Daimler-Benz which prompted the merger mania in the first place, Carlos Ghosn, Renault's redoutable dauphin, referred recently to that transaction as "an electric Mr Ghosn said his group

the button. But few would have expected the first deal of the year to have been the and Aston Martin.

But spending \$6.45bn on Volvo may not be Ford's last word. With more than \$10bn deal, William Clay Ford and Some of the upheavals of Jac Nasser, the group's new chairman and chief execu-

What might attract them next has been one of the industry's obsessions in recent weeks. Mr Nasser has pinch was almost as obvious. in Nissan Motor, the ailing Japanese car and truck maker which has become

Yoshikazu Hanawa, Nissan's president, no longer hides his interest in welcoming a rich foreign partner. A big cash injection from abroad is the most painless solution to Nissan's chronic debt load and sagging sales.

Emboldened by its successful new products and greater productivity. Renault has already put its name forward. In January, shock" for other car makers, could be interested in up to Whether prescient or just 20 per cent of Nissan if the parlous, Mr Eaton was on price were right. Others less publicly. But the most likely buyer

own merger. Subsequent hints, however, from Mr Eaton and Jürgen Schrempp. his German opposite number, suggest priorities may have changed.

In February, Mr Schrempp said a decision on taking a stake could come within three months. That would raise few eyebrows. Daimler-Chrysler has for months been in talks to buy Nissan Motor's 40 per cent of Nissan Diesel, a leading Japanese truck maker.

The failure of those discussions to reach a conclusion has been widely taken to indicate cold feet at Daimler-Chrysler. But the more likely answer is that Messrs Eaton and Schrempp have shifted their focus from Nissan Diesel to its parent com-

The fate of the Nissan group - whether just trucks or cars, too - is one example of the wider convulsions rocking commercial vehicles. Shares in the dwindling band of independent truck makers have surged after Volvo said it would use Ford's cash to expand in

Volvo's gaze has now have been looking, albeit broadened beyond Scania, its takeover talks with Investor, future now looks cloudy differences between the Gensale of Volvo Cars to Ford. is DaimlerChrysler. The Scania's main shareholder,



stock rocketed in January after Volvo revealed it had bought 13 per cent in a dawn

Breaking off the negotia-tions could be a way for Volvo to bring the price down, although the strategy is risky given rumours that Scania has other suitors. Alternatively, Volvo could have other targets. One may be Navistar, the US trucks and engines group, which is still finding its feet in the heavy truck market after a difficult few years.

Mitsubishi Motors could desire. The two companies have an established rapport

negotiating ploy: Scania's trucks operation may have about 20,000 of Delphi's US grown proportionally stron-

> The two groups were working together to market each other's vehicles and studying whether to develop a new light truck range. With Mitsubishi weakened although not as much as Nissan - Volvo may have spotted a good home for its new-found cash.

Large amounts of money have already changed hands in the components industry this year. Delphi's \$1.7bn initial public offering got off to creet purchase last year of a flying start, with shares in controlling stakes in a numbe another object of Volvo's the world's biggest parts ber of South Korean joint maker jumping comfortably above their issue price. Anathrough NedCar, their lysts worried about the danafter Volvo's decision to eral Motors subsidiary and

workers took the opportunity to buy pre-assigned shares - possibly indicating

While the Delphi deal went largely to expectations. there have been no lack of surprises on the supply side. Robert Bosch, Europe's biggest components group, continued its gradual expansion in Asia by taking control of Zexel, the Japanese maker of fuel injection systems and diesel engines. The deal follows Bosch's dis-

greater harmony ahead.

ventures. A few weeks earlier came the \$7bn auction of Lucas-Netherlands-based carmak- ger of further industrial Varity, the UK-US brakes Swedish arch-rival, after ing joint venture, NedCar's strife after last year's bitter specialist. After being rebuffed by shareholders on a planned change of domicile Subject to approval from group had until recently broke down over price. The divest cars. But Volvo's the United Auto Workers to the US, Lucas Varity found Volvo's shareholders this eschewed suggestions of collapse may have been a interest in Mitsubishi's union might take comfort: itself courted by both TRW

and Federal-Mogul as potential partners. TRW produced the winning bid, creating a big new force in components with combined 1998 sales of nearly \$19bn. Together, the new group will link TRW's expertise in steering and

suspension with LucasVari-

ty's know-how in brakes and other components. But Dick Snell, Federal-Mogul's growth-minded boss, made clear his decision to pull out of the bidding would not stop him targeting other components companies if they fit his fast-expanding group. In spite of building up heavy debts to expand Federal-Mogul through acquisitions. Mr Snell remains much favoured by investors. Few think it will be long

before he strikes again. That pause for thought may give smaller parts companies time to move. Last month, Arvin Industries, the

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 Tyres: Interview with Samir Gibara

 Focus on eastern Europe: Country reports

Chinn, chairman of Lex

Service

• Guest column: Sir Trevor

 Statistics Page 6

Fleets, People

New and updated Companies

US shock absorbers and exhausts specialist, made its long-awaited attempt to expand into other areas through an agreed \$276m bid ness of Mark IV Industries. Not long before, Borg-Warner Automotive, the Chicago-based transmissions group, announced plans to spend \$600m on Kuhiman, a

turbocharger specialist. Not to be outdone, the world's tyre makers have also been busy this year. Goodyear's Samir Gibara started the ball rolling by striking a broad alliance with Japan's Sumitomo Rubber Industries. Widely seen as a takeover via the back door, the complex transaction will create a series of joint ventures in which the US group will clearly have the upper hand.

Barely was the ink on that deal dry than Pirelli and Cooper Tire announced their own link. The two denied the alliance, which creates joint marketing structures in the US and South America, was a reaction to Goodyear-Sumitomo.

But for many observers, it was the first of what will probably be a string of transactions as smaller tyre makers react to growing domination by their larger counterparts as part of the broader motor industry consolidation which shows no

COMPONENTS: EUROPE by John Griffiths

M&A, overcapacity to take their heavy toll

For the successful groups there could be large rewards in exchange for heavy capital investment and technical resources

operations, and other mergers among car makers waiting in the wings have dispelled any hopes among automotive component suppliers of a pause in the relentless process of consolidation in their own sector.

To an extent few in the industry thought likely five years ago, the number of vehicle makers, both car and truck, is reducing to the point where it no longer seems inconceivable that the world industry will comprise just eight or nine main players within the next decade or

Europe, with current overcapacity estimated by PricewaterhouseCoopers at 6.7m units - or more than 20 per cent - and still too many national manufacturers, is expected to take the brunt of rationalisation in the next big economic downturn.

means fewer core components suppliers. But the adoption by big car makers such as Volkswagen of platform' strategies - building a maker's components sourcvariety of vehicles from one ing. hasic set of engineered com-

The creation of ponents - also means fewer. DaimlerChrysler, Ford's but bigger, contracts for the takeover of Volvo car suppliers with the resources and global reach to handle

> DaimlerChrysler, just a few months into its existence, is reviewing its entire components supply chain in Europe and North America. Suppliers to the previously separate groups will be expected to work together in pursuit of further efficiencies and cost savings - in particular through increased volumes and stronger suppli-ers taking over weaker ones in specific component cate-

Five years into its owner-

ship of Rover Group of the UK, BMW is finally rationalising components purchasing for both groups. That £1bn of Rover's £4.5bn expenditure on components is now heading outside the UK illustrates how big an impact changes at the vehicle manufacturer level Fewer car makers in itself can have on the components tor. sector. It will not be many months before Ford's takeover of Volvo starts to impact on the Swedish car

For the successful compo-

suppliers stand to gain from their heavy investment in developing the increasingly complex component modules which vehicle makers are demanding, such as complete front-end assemblies made up of bumpers, headlights and other integrated components.

Demand for front-end modules in particular is forecast to double over the next five years or so as car makers move to outsource more of the total vehicle and increasingly limit their own role to

According to Hella of Germany, one of the leaders in the sector, demand for independently-produced front ends will reach more than 25m units a year by the end of the decade.

That there has been little let-up in the pace of concentration throughout the autothe volume of merger and acquisition deals tracked over the past year by PricewaterhouseCoopers in its latest annual study of the sec-

There were 173 such deals within Europe, with a disclosed value of \$8.5bn, although this includes activity in areas such as the aftermarket and retailing. There were 42 involving US compa-

are potentially great. Big over European groups, with a disclosed value of \$5.3bn. The \$43.4bn of deals involving European takeover or merger with US groups, however, is mainly accounted for by the Daimler-Benz/Chrys-ler alliance. Hundreds more deals embraced the Asia-Pacific. Latin American and other emerging regions.

The European components industry continued to feel the effects of North Ameriamong acquisitions were Federal Mogul's acquisition of T&N of the UK for \$2.25bn and North American engines group Caterpillar's \$1.3bn purchase from LucasVarity of its Perkins diesel engines business. Only last month Meritor Automotive, the US automotive group formerly known as Rockwell, acquired LucasVarity's neavy vehicle braking systems division for \$390m.

The traffic, however, was not all one way between Europe and North America: TIT of the US sold its electrical systems activities to Valeo of France for \$1.7bn, and its braking systems and chassis engineering activities to Continental, the diversifying German tyres group, for \$1.8bn. United Technologies, the US conglomerate, has also put its automotive components business, United Technologies Automotive, up for sale and is likely to attract interest from European as well as other US components groups. It makes a range of products from system

motors to braking systems. Within Europe itself recent deals have included the incorporation of seat maker Bertrand Faure into Peugeot's components arm. ECIA, for \$1.2bn.

In mid-February, one of the biggest North America European deals finally went through after a lengthy bid battle between TRW of the US and arch-rival Federal Mogul. UK-based LucasVarity agreed to a 229p-per-share offer from TRW of the US valuing Lucas Varity at \$7bn. Regional reports,

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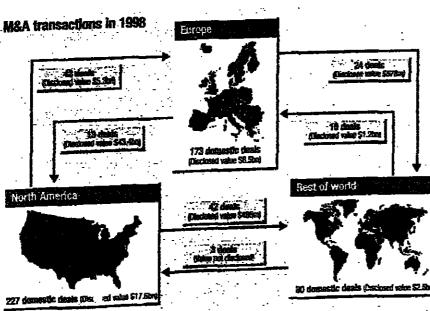
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Consolidation appears set to continue

Auto units belonging to United Technologies and Allied Signal are among the names expected to be involved in multi-million-dollar deals during this year

overriding trend in the US automotive parts industry for several years – and all the indications are that this is likely to remain the case for some time

Amongst the larger deals completed in 1998, for example, Toledo-based Dana Corporation emerged as a "white knight" bidder for Echlin, in a \$3.5bn deal: ITT Industries sold off its electrical systems business to France's Valeo for \$1.7bn, and its brakes business to Germany's Continental for \$1.8bn.

Detroit's Federal-Mogul added the automotive division of Cooper Industries (on top of earlier purchases of Britain's in Chicago acquired Kuhlman

its turbocharger business. The early weeks of 1998 have been just as lively. A bid battle loomed for Britain's Lucas Varity, TRW eyed up acquisition possiblities. In the end TRW emerged victorious - without Federal-Mogul putting up a full-blown fight - and acquired

the British group for about \$7bn.

Other assets either remain on the market or could be earmarked for sale later this year, including United Technologies' automotive business, and a division changes instigated by the of Allied-Signal. UT, for original equipment example, confirmed recently that manufacturers (OEMs). As car it had received the first bids for the unit and could close a deal by the summer. Analysts have suggested that it might fetch a costs, they became anxious to figure in the \$2bn to \$3bn range. deal with a smaller number of

Meawnhile, players such as companies on a broader, Federal-Mogul's Dick Snell and Meritor's Larry Yost have made clear they remain open to acquisition opportunities -Federal-Mogul and Cleveland's although the latter company, which was spun off from Rockwell and recently bought Lucas Varity's heavy vehicle country.

braking systems unit for £235m,

has suggested that it would like a

"digestion" period first. But, within this broad trend, both analysts and industry players think there are nuances developing. Much of the initial consolidation was driven by and truck makers sought to simplify their supply arrangements and squeeze out

international basis. Accordingly, many of the larger "tier one" suppliers - or companies which aspired to be in this class - sought to broaden their product offerings and establish networks outside their home

But, increasingly, many OEMs would like to outsource not just the supply of components but whole "modules" - where suppliers have already assembled dozens of parts into basic units, such as dashboards. The automaker then bolts together a simplified number of parts. "Now customers equipment are looking for more than just global supply of components. They're looking for modularity," says Joseph Magliochetti, Dana Corporation's newly- promoted

chief executive.

solidation - and may, in some cases, lead to more in the way of co-operative ventures and allied manufacturing arrangements, rather than all-out acquisitions. Other observers think that

some of the activity by "tier one" suppliers will ease off, not least because of the sheer number of deals done recently, and the need to digest and reorganise recentlyacquired assets. But that, in turn. could simply mean that the spotlight focuses elsewhere. 'Some companies are bumping

put together, and still sorting out what they've bought," says Tom Evans, head of Tenneco Automotive. But, he adds, there could be more activity to come in secondary areas such as heating and ventilating products and emmis-

sell materials and the like to the bigger players. The question of how tolerant the OEMs will be of this process

is a moot point. While they were initially anxious to see suppliers consolidate and simplify their buying arrangements, many parts companies think that the pace of change may have taken the big car and truck makers by surprise. Even companies which have led the move to more "cooperative" supply relationships such as Chrysler - are still said up against what is practical to to do a fair amount of "shadow engineering" to ensure that "power shift" is not too exten-

what impact the spin-off of GM's in the previous 20, tive, and a possible similar sepasion controls, and also amongst ration of Ford's Visteon unit may years."

changing the nature of the con- some of the sub-suppliers, who have. The GM divestiture is already under way, with a minormarket and a full spin-off set for later this year. Timing vis-à-vis the Ford unit is less clear, but such action seems unlikely to -occur before 2000.

Either way, rival suppliers are watching closely to see whether such moves open up supply opportunities, or create new effective competitors. The Delphi situation is viewed by many as particularly interesting, as GM attempts to juggle its need for cost-efficiencies with a simulta neous desire for more harmonious labour relations.

"This industry has changed Finally, there is the question of more in the past five years than parts business, Delphi Automo- Evans. "And I think it'll change one more time in the next five



Spin-off may provide more opportunities in supplies

without any major hitch and was generally applauded by analysts. Delphi Automotive Systems, the world's largest auto parts maker and biggest US companies. made its stock market debut

last month. A minority stake in the Michigan-based group was sold to investors, by way of an initial public offering at the beginning of February. The 100m shares, around

of the range originally This raised approximately \$1.7bn, money which will be used for general corporate

entire equity, were priced at \$17, at the upper end

17.7 per cent of the

Delphi's parent, will distribute the remaining 465m shares to holders of GM stock later this year - at arm will officially be a

separate company. Delphi is by no means the first business spun off by

In recent years streamlining efforts at the world's largest automaker have led to the divestiture of the likes of Detroit Diesel and Electronic Data Systems, A month ago. American Axle, a much smaller collection of former GM parts plants, also made its debut on the stock market - although with less

Delphi is a significantly larger divestiture than any of the previous sales or spin-offs.

over \$28bn, more than twice the size of Goodyear Tire, for example, and almost double those of Bill Gates' Microsoft, It employs around 307,000 people

A good portion of its operations are also spread globally. Nearly 60 per cent of its employees and about 30 per cent of its manufacturing facilities are outside North America. About 28 per cent of 1997 sales came from products manufactured overseas. Products, too, are spread

from chassis and steering-based equipment, through to a substantial business in the growth area of automotive electronics.

Most analysts think the Delphi spin-off will be good for GM. A high degree of vertical integration has been cited as one factor holding back margins at the

The ability to introduce even more competition into supply arrangements over time should also help to improve returns. In addition, working capital at GM is expected to increase significantly - by about \$2.7bn - once the spin-off is

In pressing ahead reorganisation, its formerty-splintered parts operations has become a cohesive and profitable business. GM has also been ahead of its big Detroit-based competitor. Ford, which has moved to split out its components interests as a separate operating unit under the

Both competitors and analysts agree that Visteon

lags Delphi in establishing an operating strategy, independent of its existing

parent. The expectation is that Visteon, too, will eventually be spun off, but probably not this year. If the separation is good for GM, Delphi, too, has

been stressing the advantages, it has argued over the summer, with the that the ability to grow non-GM business will be at just over 3 per cent. "significantly enhanced" According to J. T. once it is fully independent.

"Other vehicle manufacturers have been, to varying degrees, reluctant to purchase components point each year for the next extensively from a supplier four years. This would then owned by GM . . . we believe this is attributable in part to per cent by 2002. concerns that the related

SOUTH AMERICA by Mark Mulligan in Santiago

profits would strengthen GM and that GM might obtain access through Delphi to confidential information regarding the other vehicle manufacturers' vehicle designs and manufacturing processes." Delphi commented in the course of

the IPO. Nevertheless, building up non-GM business will be one of the big tests over the next few years. Since 1993, this has increased relatively

modestly, from about 13.3 per cent to 18.3 per cent in

Improvino margins will be another. Last year, after-tax income fell to \$889m from over \$1.3bn in the previous year, even before the impact of charges and the debilitating work stoppages

net income margin standing Battenberg, Delphi's chief executive, the current objective is to increase this by about half a percentage

raise the margin to about 5 Finally, there are the labour issues. Delohi has had difficult relations with its unions in the past, including the United Auto Workers, which represents the largest single group of employees. The UAW has been publicly opposed to the spin-off, and labour disputes have cost Delphi more than \$900m

over the past two years.

National contract talks also

loom later this year. Nikki Tait

Brazilian devaluation



Fact-finding: J. T. Battenberg (right) and Jack Smith, GM chairman. look at wire harnesses made at the Delphi Pacard Electric plant In Brookhaven during an annual tour of subsidiaries

JAPAN by Alexandra Harney in Tokyo

Close links a barrier for predators

Dwindling demand and excess capacity serve up some temptina rick pickinas

strategic alliance to create financial year. the world's largest tyre company last month, the first question on investors' minds was: "Who next?"

US and European car manu- as well. facturers that the Japanese components sector is ripe for and the world's fourth-largthe picking. Dwindling est parts manufacturer, saw demand for cars has only a 2.7 per cent decline in squeezed parts manufactur- net earnings in the year to ers, leaving the industry with shrinking revenues and

a lot of excess capacity. There is little doubt that Japan's car components sector is heading for consolidation. But what is much less clear is how foreign companies will negotiate the substantial obstacles to doing business - namely, the highly competitive and closely-guarded relationships between Japanese automakers and their loyal suppliers.

The irony is that these mutually-supportive ties were the driving force behind growth in the indus-try's Y7.700bn annual reve-

nues until recently. Starting in the 1950s, several Japanese carmakers. Analysts say that Japanese invested in a group of small. direct equity investments and loan guarantees. Toyota, Nissan, and Honda each developed a circle of suppliers which provided more than 70 per cent of parts on

The collapse in car demand in Japan and Asia since 1997 has revealed the inherent structural inefficiencies in this system, however. The 12.6 per cent decline in car sales - from 6.73m units to 5.88m in 1998 alone - has forced a sharp contraction in earnings at parts makers which depend heavily on carmakers' domestic production. Calsonic, an air conditioner, radiator, and muffler manufacturer owned 33.3 per cent ter. At the same time, comby Nissan, recorded a 67 per panies have been expanding

When Goodyear and Yl.3bn to Y424m, on turn-Sumitomo Rubber formed a over of Y75.92bn in the last

Yet, just as the downturn in car demand has widened the divide between strong and weak automakers, a gap The deal underlined the has emerged between the growing sentiment among components manufacturers Denso, the industry leader

> March 1998, from Y51,15bn to Y49.77bn on turnover of Y1,375.13bn. One of the main reasons for its success is its affiliation with Toyota. Japan's largest carmaker: companies in the Toyota group own more than 30 per cent of Denso.

ln between is a motley group of more independent parts makers supplying several carmakers, including Akebono Brake, the brake manufacturer. Kayaba Industry, which makes shock absorbers, and Riken, the piston ring manufac-

But even these companies have not been able to avoid the collapse in the market parts makers' dependence on domestic carmakers - in the form of supply relationships as well as loan guarantees and other financial support - has been the largest factor behind this decline. Calsonic, for example, depends on Nissan for over 70 per

cent of sales in Japan. The industry exported only 21.4 per cent of total output last year, compared with 28.2 per cent exported by a sample of US parts makers, according to Morgan Stanley Dean Witter.

This has been compounded by high fixed costs in Japan, which have climbed to record levels in the past two years, according to Christopher Redl, industry analyst at Morgan Stanley Dean Witcapacity - a risky move in



Quiet times in Tokyo showrooms bring bad news for the country's its sector, too, as sales decl

view of the expected decline in domestic demand. "The production system

was efficient when it was all sales-oriented and the companies were better off," says Mr Redl. "Now they are being forced to meet the financial challenge - to remain profitable during a

> Tokyo encourages temporary closure rather than

capacity cuts

now. The biggest problem is that you can't fire anyone in this country. Japanese labour laws

make it far more expensive to sack workers or make them redundant than to keep them on the payroll. Although some manufacturing industries - most recently, the truck and petrol sectors - bave applied for government subsidies to cover these costs, the government has encouraged companies to close facilities temporarily rather than reducing final production

The keiretsu system (families of interlinked companies) also allows companies to delay significant restructuring because it encourages

strategy, analysts argue, Peter Boardman, of Warburg Dillon Read in Tokyo. points to the example of Tochigi Fuji Industries, a small, diversified partsmaker affiliated with Nissan Motor, located north of Tokyo. Tochigi Fuji makes slip disks used in car wheels, and has ample cash-flow to support a tie-up with another parts maker. But

managers to adhere to group

the company has insisted on protecting its relationship with Nissan, which is slashing production levels in expectation of its sixth year of losses out of the last "Now, even with profits declining, they're just not

doing anything. It is like they're waiting for Godot," says Mr Boardman. But there are indications that change is in the air. Nissan has loosened its hold on several of its primary suppli-

ers in recent months in an effort to boost cash-flow and reduce its interest-bearing debt. It has sold shares in Ikeda Bussan, Unisia JECS, and Kinugawa Rubber Industries to companies outside its ketretsu - and has even sold shares in its affiliates to groups associated

with Toyota Motor. The deals, while hardly on the scale of General Motors' move to sell Delphi Automotive Systems, could be the harbinger of things to come. brings out calculators

New and expanded investments are reassessed as the continent lem Empreendimentos. feels a wind of change in the biggest market Recession and heavy whose currency is still bought inside to assemble

financing costs have spolled the party for some carmakers and components manufacturers planning new South America, although the long-term view remains that This, he feels, will further prospects for growth.

Plant closures, production the lead-up to, and since, the devaluation of the Brazilian currency have thrown into question some forecasts. However, analysts are sticking to predictions that the country will lift light vehicle capacity from 2m units a year now to 2.5m by next year and 3.5m by around 2003, reflecting the some \$12bn of foreign investment into the region in the last

few years. With members Mercosur - the free trade zone encompassing Brazil, Argentina, Uruguay and Paraguay, with Chile and Bolivia as associates - agreeing in December to cut tariffs on imported vehicles to 15 to 33 per cent, pressure is recorded sales of \$15bn in mounting for some production to find new markets.

Adding to this pressure is a big downturn in domestic consumption in Brazil and Argentina, by far the most tion and sales.

Some industry officials say the weaker Real may serve to make Brazil, which relies largely on sales to Mercosur. more competitive with Asia as an exporter of vehicles and parts to the US and "Brazil, with its currency

pegged to the dollar, hasn't been as competitive as other emerging markets - but this could now change," says Brian Babyak, head of communications for Latin America at Delphi, the components manufacturer recently spun off from General Motors.

Luis Martinez, head of Latin American studies at direct impact on Argentina, pegged to the dollar. "Not modular units around the going through a process of only are Brazilian automo- main production line. tive parts becoming much cheaper than imports, but on logistics has added impecheaper also inside the tus to a period of frenetic Argentine market," he said.

the region offers exciting squeeze Argentine productional and local components ers, which are often second- makers. According to a tier, or aftermarket, supplicuts and project delays in ers selling to markets such as Brazil and Venezuela. where many cars are more than 10 years old. Meanwhile, first-tier, or

where international giants such as Delphi, Allied Signal, Valeo, TRW, Magneti Marelli, Bosch, Siemens and LucasVarity battle for market share. Delphi, with nine fully-

owned plants and three joint ventures in Brazil, two plants in Argentina, two joint ventures in Venezuela and a technology centre now being built near São Paulo. is one of the longer-established manufacturers in an industry which last year

With duty on imported components now at 14 to 18 per cent, and the arrival of more and more international automotive groups to chalimportant South American lenge VW, Flat, General markets in terms of produc- Motors, and Ford - which together still account for more than 85 per cent of pro-duction in Mercosur - parts makers are being called on to produce locally and play a bigger role in design and development of vehicles to

> What we call integrated production is now a very clear trend in Mercosur. says Mr Martinez

At the new GM plant being build in Rio Grande do Sul. for example, a small group of suppliers will set up their own factories around the assembly plant. Chrysler will also have its suppliers positioned around the periphery of its new plant in the southern state of Parana. S&P DRI, says the Brazilian At VW's bus and truck facdevaluation will also have a tory in Rio de Janeiro state,

This increasing emphasis joint venture and takeover activity between multina-Economic Intelligence Unit. by 2000 all but a handful of first-tier components groups selling directly to carmakers will be foreign-owned, with direct-to-maker, production, the actual number of suppli-is concentrated in Brazil, ers falling from about 500 ers falling from about 500 now to 200 to 300

> tion has been Magneti Marelli, the Italian group, which in 1997 took control of Cofap. one of Brazil's best-known parts makers. Lucas Varity. recently the subject of a \$7bn deal with TRW of the Vargas, Brazil's biggest ture brakes maker, and Hayes agreed to lift its stake in

Mercosur – mainly Brazil and Argentina - have been purification," says Mr Martinez. "In the last three or four years a lot of the medium-sized and most of the small companies have been disappearing, leaving just the middle-sized and big ones. "And a lot of these report late last year by the have since been involved in mergers and acquisitions." He says the dominant

players are now sorting themselves into three groups: new investors looking to position themselves in the market: more established companies such Typical of this consolida- as Valeo - which claims 60 per cent of the 4.1m units a year headlamp market in Mercosur - considering a full or partial withdrawal from Latin America; and the UK manufacturer manufacturers taking advantage of the regional downturn to consolidate through US, is taking over Freios acquisitions and joint ven-

"This third group is Lemerz International has looking towards recovery in Mercosur in the long term, Brazilian wheelmaker Borsays Mr Martinez.

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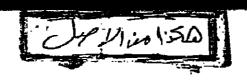
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vehicle makers

 Growing competition from Delphi and Visteon, the massive, and maybe revitalised, giants of the

 Dangers of a generalised downturn in vehicle demand

Mr Goutard appears

sanguine on all three fronts.

On price pressure, he argues Valeo has shown it can squeeze costs better than

most. "We have been able

to cut costs faster than has

been dictated through the

pressures of decreasing

least 10 plants a year".

threat of tougher

prices. Restructuring is a

way of life at Valeo. We have

rationalised or regrouped at

He is as relaxed on the

competition from rivals, such

companies. The world's two

as Delphi and Visteon now

they are throwing off the

shackles of their parent

biggest suppliers are

more aggressively to

Delphi's flotation and

chasing business much

distance themselves from

General Motors and Ford,

their respective parents. Mr

Visteon's likely follow-up as

Delphi and Visteon cannot

As to the state of demand,

Mr Goutard is upbeat about

Valeo's main markets. "The

watch is interest rates. As

long as people think money

s free, they will buy cars."

tive Motor Co (Kamco),

which manufactures small

motors used in power win-

dow systems and air condi-

tioners, to its German joint

venture partner, Bosch, for

strong because of its leading

position in Korea's car parts

D.K. Yang, automotive

analyst at ING Barings in

Seoul, estimates component

makers will enjoy sales

growth of up to 20 per cent

this year as domestic car

sales recover and exports of

Analysts expect that

Won35bn

industry.

Haig Simonian

one factor you want to

opportunities, not threats.

continue to monopolise

supplies to their parent-

companies eternally," he

Goulard, by contrast, sees



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PROFILE VALEO

Healthy appetite remains after a \$1.7bn purchase

For years, the biggest takeovers among automotive suppliers have been one-way affairs as US giants have picked off smaller. often European, rivals. Recently, however, the tide has turned as leading Europeans have cast their gaze across the Atlantic. Two of last year's biggest

deals involved European suppliers paying almost \$4bn between them for the components businesses of ITT Industries. One of the buyers was Valeo, the fast-growing French components group, which spent \$1.7bn on ITT's auto electrical side

After steering the biggest takeover of his 12 years at Valeo's wheel, Noël Goutard remains as keen on takeovers as ever to fuel his group's inexorable growth. Over the past five years sales have climbed by an average 15 per cent a year, "and we've been able to grow profits faster still". While half the increased turnover has come organically, acquisitions have made up for the rest.

Mr Goutard will not hint where his next target might lie, nor quantify the savings expected from integrating ITT's businesses with Valeo's own. "Depending on the deal, we look to a twoto four-year payback. In this case, it will be the longer

end," is all he will give away. He is ready, however, to indicate the conditions any takeover must meet to satisfy Valeo's requirements. We have four main businesses: thermal, clutches and transmissions:

electrical and electronics; and the aftermarket. From these four centres we strive to enlarge the perimeter of Our expertise." While Valeo would be unlikely to expand into an entirely new field it will

consider just about anything within its four core competences. Mr Goutard would be all the more enthusiastic if the target filled geographic gaps or added complementary products to enhance the group's ability to make entire systems, rather than ust parts.

Such a sure-footed approach to growth explains Valeo's rise from a manufacturer of car heat exchangers into areas such as air conditioning and,

latterly, electronics. Similarly, its know-how in mechanical anti-theft devices has blossomed into broader expertise in entire door

Electronics features high on Mr Goutard's wish list. costs better than most The car is going to be

electrified 100 per cent, and Valeo is going to be part of be of interest, he hints, " he says. Developments Expertise in plastic on the horizon include a mouldings is necessar move from 12 volts to 42 vhen linked with existing volts to meet the insatiable Valeo products, such as needs of future vehicles. Any interior trim to provide devices, such as pumps and

complete systems. Focused thinking has made Valeo a firm favourite with industry analysts. *Our positive fundamental view of the company remains unchanged," say Nicolas Hirth and Greg Melich at Morgan Stanley Dean Witter in London. But brokers' buy notes have been thinner on the ground lately. "Our concern is that pressure on suppliers from car producers remains intense." notes

Morgan in London. Analysts reckon Valeo, like other suppliers, faces three Continued downward

pressure on prices from



moving downstream - could lighting, air conditioning or

Camilla Darwin at J P

WORLD TYRE INDUSTRY by John Griffiths

Countdown to the endgame

Goodyear's chairman gives his thoughts on the direction the sector is heading after his deal with Sumitomo Rubber

As Samir Gibara, chairman of Goodyear Tire and Rubber, sees it, the endgame for consolidation of the world's \$75bn world tyre industry is starting to roll into sight.

"Seven to 10 years down the road I think you will see the world tyre industry basically in the hands of three or four global players," he savs."

Mr Gibara was speaking in New York, in an interview with the Financial Times, after cementing a deal moving the goalposts for the

entire industry., Goodyear has formed a "global alliance" with Sumitomo Rubber Industries, Japan's second-largest tyre manufacturer. In reality, it is a takeover by Goodyear in all but name. Of the six joint ventures created by the deal, four are under Goodyear's majority control. Only in Japan are two joint ventures one dealing with the original equipment market, the

other with replacement tyres under a Sumitomo majority holding, in a face-saving exercise likely only to postcone the day that Goodyear takes full control.

The alliance has had the effect of breaking Goodyear free of its years-long battle with Michelin of France and Bridgestone of Japan for leadership of the industry. Throughout the 1990s each has had sales of \$12bn to \$13bn, their places in the pecking order changing with even minor market or currency shifts.

industry's undisputed colossus. The \$2.5bn of Sumitomo's \$3.9bn annual tyre sales being brought into the alliance lifts the new grouping's sales to nearly \$16bn and takes Mr Gibara a big step towards his goal of turning Goodyear into a \$20bn to \$23bn turnover

Goodyear is now the

Mando will sell several of its The implication of Mr business divisions separately Gibara's endgame prediction to foreign and domestic carmakers. Ford is mentioned as a possible buyer of its joint venture Halla Electron-Despite the financial probgroup, Mando's operating performance is considered

Even the largest, Continental, has tyre sales only about one-third those of the smallest of the "big three" players. Pirelli's tyres turnover is under \$4bn, and Yokohama's, \$3bn.plus. Pirelli has already tried, unsuccessfully, to merge with Continental - in the early 1990s - Mr Gibara Grunberg or Mr Tronchetti

points out. As for the rest of the industry, the odds against

appeared to stand a real chance of making inroads. have lengthened to the point where they, too, have little prospect of long-term independence, says Mr Gibara. Not surprisingly, the view is not shared by Hubertus

Both maintain that they have a viable future follow-

The smaller entity within four years.

is that the industry's second tier of major players, notably Continental of Germany, Pirelli of Italy, and Yokotheir own - or even be swal- western Europe, while meetlowed up by Goodyear, ing demand for cheaper. vol-Michelin, or Bridgestone.

Provera are wrong.

emerging market players such as Korean tyremakers. which until even recently on at least a technological par with the products of the "big three"

von Grunberg, Continental's chief executive, or Pirelli's it is part of a strategy which chairman, Marco Tronchetti Provera.

plavers will be unable to match global reach'

ing a broadly similar strategy: developing and manufacturing technologically advanced tyres - capable of hama of Japan, will be commanding higher prices forced into combinations of and good profit margins - in ume tyres from plants in increasingly will be unable eastern Europe or other lowcost centres of production.

> At the same time, they would forge partnerships or alliances with other tyremakers in specific areas where a benefit could be identified.

Currently there is little to suggest that either Mr von

Both Conti and Pirelli are making good profits, and their reputations stand high as makers of premium tyres

Underlining the strategic thinking, Pirelli is forming an alliance with Cooper Tire and Rubber of the US, the world's eighth-largest producer, "We have been negotiating this for almost a year: will allow Pirelli to remain an independent global player," stresses Mr Tron-

In late February Pirelli also signed a deal to collaborate on run-flat tyre development with Michelin.

chetti Provera.

"You have to separate the psychological effects of the Goodyear/Sumitomo deal from the physical - the tyre is global, but markets are still different. There is still room for companies like Pirelli to be a global player, with maybe a smaller share but higher profits and benefiting from alliances of the type we are forming with Cooper."

Mr Gibara, however, says that the smaller players to match the global reach. purchasing power and other scale economies of the largest groups.

"For example, in 1997 our Asia plants supplied no tyres to Europe or the US; this year they will supply nearly 3m. It's the same with Latin

Continued on Page 4

SOUTH KOREA by John Burton in Seoul

Weaklings fall to the strong

remaining belt-driven

compressors, will be

electrically driven before

even intake and exhaust

valves will go this way.

long, he predicts. Ultimately,

But while high-tech parts,

where entry barriers inhibit

newcomers, top his plans,

excluded. His preference is

volumes, which could make

components profitable when

offering synergies with other

increasingly dominated by

big chemicals companies

subjected to Valeo's cost

cuts, or for acquisitions

commodity items are not

manufacturers with high

even low margin

group products.

Even plastics

Foreign companies seize the chance to snap up quality manufacturers as painful restructuring begins It has been a brutal year for pay owed by carmakers that the decision in January by half-stake in Korea Automo-

South Korea's highly-fragmented car components industry, which consists of hundreds of small and financially weak suppliers.

Domestic car sales fell by 50 per cent last year during the country's worst recession in 45 years. More importantly, the number of Korean carmakers that kept component sub-contractors in business has dramatically shrunk from five to two durindustry plagued by overca- sung Motors.

try is now heading for a period of painful restructuring. Hyundai Motor. which last year, has embarked on a among parts suppliers for the two carmakers.

The consolidation process has not been without conflict. Car parts workers have

have gone out of business. Samsung Motors is demanding that its only car model, the SM5 saloon, be kept in production once its fledgling car business is Motor, although Daewoo makes a similar model. The reason? Samsung wants to guarantee jobs for the net-

The dispute has delayed ing the past 15 months in an Daewoo's takeover of Sam-

established.

The car components indus- car parts sector have provided an opportunity for foreign companies to acquire some of Korea's biggest comwhich have a good reputarationalisation programme tion for product quality. Analysts believe that Korea could emerge as a regional manufacturing base in Asia for foreign component pro-

One recent example was

Ford Motor of the US to acquire majority control of Halla Climate Control (HCC). a maker of automotive air conditioning and heating systems, through Ford's Visteon car parts sub-

Ford doubled its stake to 70 per cent in HCC, which was established in 1986 as a work of sub-contractors it joint venture. It is a sub-contractor to Hyundai, Kia. Mazda, General Motors, and Ford.

"This acquisition better Asia after Japan. However, the woes of the positions Visteon to deliver leading-edge climate control systems to customers around the world, especially in the Asia-Pacific region," says bought insolvent Kia Motors ponent manufacturers. Ford. This followed Ford's purchase of HCC's operations in Canada.

Analysts say Ford's investment in HCC could serve as a model for the revival of the Korean car components industry since foreign companies, such as Ford, have

the financial resources to buy and merge suppliers, which would lead to greater cost efficiency and improve technical capability. Foreign investors in the

car parts industry are also attracted by the size of the domestic market. Although Korean carmakers have recently suffered a severe downturn they are still expected to maintain production capacity of 3.5m vehicles annually, which is the second-largest output in

More foreign takeovers are lems at the parent Halla likely. HCC was just one of several car component companies controlled by the Halla Group, which went bankrupt in December 1997 because of large debts:

Rothschild, the investment firm, bank, is now supervising the sale of other Halla businesses, including Mando Machinery, Korea's biggest car parts supplier.

Mando has already sold its car parts increase.



Financial crisis has seen manufacturers move into exports Before south-east-Asia's tially, Mr Hafiz says that Fun Woh Peng, general

concentrate on building margins. export markets. Demand for vehicles in Malaysia, for stepped up efforts to reduce seats to radiators to shock example, had been growing as much as 30 to 40 per cent annually.

Syed Hafiz Abu Bakar. general manager of auto for filters from Japan, for parts at UMW in Malaysia. which makes filters and supplies shock absorbers, said the attitude had long been, -Why bother finding a new market when you can't even keep your local market happy?" He says: "Year on year we

had been struggling to keep pace." So when demand suddenly dropped, as recession swept through the region. car sales in Malaysia, Indonesia. Thailand and the Philippines plunged up to 85 per cent, leaving many component makers fighting to sur-

While those car manufacturers which could afford it did their best to keep-their component makers in operation with advance payment for supplies and other benefits, others pressured them to cut prices by up to 10 per cent to relieve their own burdens. Some component makers found themselves squeezed on all sides.

The bigger component makers in each market, which still have the resources to commit, are using the opportunity presented by the slowdown to institute some long overdue changes in they way they do business. Although they moved in to buy assets resisted cutting prices ini- cheaply.

financial crisis hit, domestic once it became clear that the auto component makers in crisis was going to be opment in Auto Parts Holdmuch of the region had protracted, component makno real reason to ers began to accept lower

> locally or from cheaper markets. Instead of buying paper example, it bought them from South Korea. And if a most importantly, it began tapping into the export mardomestic currency was

weaker. So far the strategy seems on track, but it has not been as easy for all component a regional automobile analyst says. Many goods did not meet the quality standards achieved in the US and Europe. Other manufaccredit lines or foreign partnerships needed to survive. handful of small to medium local companies without for-

the direction of bankruptcy. "They were weak to begin with and had no help from the outside," says Michael Dunne, president of Automotive Resources Asia. Some of gradually - to 144,637 in 1997 those in joint ventures with and 80,230 in 1998. Japanese companies found themselves being bought out, or at least selling majority ownership, while major global OEM (original equipment manufacturers) also

ing, Malaysia's largest auto component maker, says the company, which produces a To afford that, UMW range of components, from costs without reducing qual- absorbers, is now trying to ity. It began buying parts strike the right balance between the domestic and export markets, as well as between the automotive and non-automotive markets.

It does not want to be hit component came in two in future as badly as it was parts it tried to buy it when auto parts sales already assembled. Perhaps dropped 40 to 50 per cent last year, so it has put a new emphasis on developing furket at a time when the niture as it seeks to increase automotive part exports and improve their competitive-

In Indonesia, Mr Dunne says capacity is five times makers to switch to exports, the demand. The regional crisis has hit its economy and its automobile industry - hardesi. Last year 58,121 vehicles were sold there, down sharply from 391,807 in turers did not have the 1997. This year only 75,000 units are expected to be sold.

The Philippines, which In Thailand, more than a had a far smaller market than Indonesia, Malaysia and Thailand to begin with, has been hurt the least, Mr eign affiliations headed in Dunne says.

> In fact, as global OEMs move into the region, the Philippines, with its solid infrastructure and base of engineering talent, is being put under the microscope. "It has all the ingredients to do well," Mr Dunne believes.



Western investment rewarded with growth

Storm clouds have gathered over world car makers during the past year. But, as correspondents report on these pages, there is some sunshine to be found

The scary ride car makers have modest growth will be sustained the industry's main players has Slovenia, now have car/ Daewoo, the country's main been enduring over the economic bumps of Asia, South America and Russia smoothes out uncannily through another region of emerging car markets

Central and eastern Europe outside of Russia is remarkably stable; it says a lot for being plugged into the side of western Europe," says Andre Shortell, global automotive industry specialist with Citibank.

During a year which has seen financial collapse in Russia, and plunging car sales in the South investing heavily, the automotive sustained, and in some countries Most analysts suggest that expansion of dealer networks by

this year, even though the west European markets to which the region's cars increasingly are being exported are widely expected to undergo a modest downturn.

entire region of central and eastern Europe, including Russia, CIS, and Balkans states, saw a 21 per cent jump to 2.2m units. By car distribution in central and the end of last year growth is eastern Europe.* estimated to have slowed sharply as a result of the problems in which neighbouring states. However, manufacturers have been with the European Bank for Reconstruction and Development industry and markets of central showing economic growth in the Europe - the Czech Republic, central European states in the Hungary, Poland, Slovakia, range of 3 to 5 per cent, the Slovenia, and Romania - have coming on stream of new car been enjoying a period of plants such as General Motors' Opel Polska facility at Gliwice, near Kracow in Poland, and Europe.

meant further sharp sales rises in those countries benefiting most from western inward investment.

Poland, with new car sales of well over 500,000 units a year, now accounts for around 24 per In 1997, sales of cars and light cent of the region's sales and has commercial vehicles across the overtaken Belgium in market size, according to Elaine Hardy, project director for consultancy Harbour Wade Brown's study of

But there is still plenty of room for further growth, with big American and Asia-Pacific Russia and immediately disparities in the levels of car ownership between countries. For the entire central and east European region, the overall car population is now estimated by Harbour Wade Brown at 45m, a rise of 4m rise over the past two economy overall has been years and representing 110 cars growing at a healthy rate, the per 1,000 population compared with 450 per 1,000 in western

While some countries, such as

population ratios close to the European average – in Slovenia's case 390 per 1,000 - Russia has only 115 and, at the bottom of the pile, Albania a mere 23.

Of the 35 main manufacturers active in the region, most now have national distributors for each of the main markets in central Europe and the Balkans. Altogether more than 5,000 dealer outlets are now open in the six central European states, more than half of them representing western brands.

The big beneficiary of automotive activity remains Poland, which now accounts for almost half of inward automotive investment in the region. The reasons are not hard to find. The current 3 per cent representing a slight slowdown from previous

General Motors, Flat, and

industry players, are enjoying low costs - workers at the showcase Opel Polska receive 15 per cent of their counterparts' wages at Opel plants across the border in Germany. Workforces tend to be young, and both education and productivity levels are high.

The Opel Polska plant is already scheduled for its first phase of expansion next year. Piat is bumping up against capacity limits, and some industry observers suggest that it may not be long before Fiat cutbacks because of poor sales. invests in more in central or eastern Europe, although not again in Poland to avoid having too many eggs in one national

If there is a question mark over a manufacturer it relates to South Korea's Daewoo and extends to its Czech Republic, Ukraine and other regional plants as well as Poland.

Daewoo has expanded rapidly throughout the world and is not yet making the sales or financial returns it hoped from its investments in central and eastern Europe.

regional best-seller in the cars sector, but its light commercial vehicle operations remain more problematical, while a joint to add more Skoda production. venture with AvtoZaz in the Ukraine to produce Tavria models ~ the largest single foreign investment in Ukraine -While not present in Poland

undisputedly Europe's biggest once the butt of western consumer jokes, has been turned into one of the industry's bigger

success stories. With its products now based on

RUSSIA by Ryan James Tutak

VW "family" platforms, and after several billion dollars of investment in the Mlada Boleslav facilities near Prague, its cars are finding willing buyers throughout Europe. The Skoda plant has lit-Its Polish-produced Tico is a erally run out of capacity, and demand is such that VW is now looking at its plants in western Europe as possible sites at which

Neighbouring Slovakia, too, is securing a notable VW vote of confidence: an investment of up to DM700m to double the capacity has already seen production of its Bratislava plant to 200,000 to 250,000 units a year. Starting in mid-year it will add VW Polo itself, Volkswagen - now output to the VW Golf and Bora models already in production there. Around 90 per cent of promanufacturer - can only be there. Around 90 per cent of pro-pleased with the outcome of its duction is destined for export, ventures into the region. Skoda, including to highly qualityconscious buyers in the west. New Car Distribution in Cen tral and Eastern Europe 1998 Harbour Wade Brown, 9 Smith Street, Warwick, UK.

CZECH REPUBLIC & SLOVAKIA by Robert Anderson in Prague

Skoda drives VW's success story

With labour costs only one-tenth of those in Germany, Volkswagen is planning new plants and a push into Russia

bought in 1991, as its vehicle pean Union approval for the for expansion into central Czech government's invest-Europe. Skoda is now the ment incentive package, but biggest carmaker in the Skoda expects to begin conregion and has powered VW struction in the middle of brands to rank first in sales. this year and to start pro-After big output increases duction in 2001.

in recent years, 1999 will be labour costs one-tenth those ambitious plans to move further east and build an assembly plant in Russia, plans to add a third, larger but it is also trying to model. increase sales in western Europe, helped by new models built on VW platforms.

The biggest investment will be a DM1bn engine bled last year to 117,529. plant at Mlada Boleslay to helped by the introduction of

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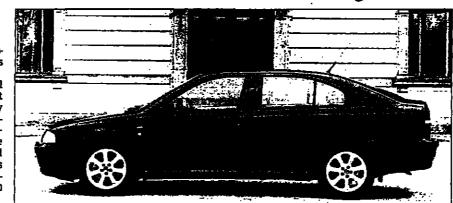
Skoda is also revamping a year of investment for VW. its model ranges. At the end New plants are planned in of the year it will introduce the Czech Republic and Slo- a replacement for its fivevakia to take advantage of year-old small Felicia model - this time based on the of Germany. Skoda has common platform also to be used by the next-generation VW Polo - and in 2001-02 it

> steadily increasing the production of the newer midrange Octavia. Output dou-

Volkswagen has used Skoda ally. Plans have been held cent to 285,781 and is expec-Auto, the Czech carmaker it up by the need to win Euro- ted to decline again this

> Total production will remain the same this year at around 400,000, but by 2001-02 - when the investments have been absorbed -Skoda expects to produce 500,000 cars a year. This will consolidate its position as the country's biggest company, representing almost 10 per cent of exports.

In Slovakia, VW is moving away from just using the BAZ car plant it took over in 1995 to produce small volumes of labour-intensive After a slow start it is four-wheel drive Golf hatchbacks. This summer it will begin production of its Polo small car alongside the existing Golf and Bora lines.



car bodies for final assembly. The company is now niche models such as investing DM450m to upgrade capacity so that in 2000 the plant can produce 200,000 to 250,000 cars a year, almost all for export.

VW, Slovakia's biggest for-

VW tripled production at eign investor, is also considturn out 500,000 Skoda an estate version. Felicia Bratislava last year to ering investing in a compoengines and gearboxes annu- production fell back 4 per 125,000 by importing painted nents plant in Martin. The

company already produces fast we expand in eastern gearboxes and components at its Bratislava plant and Skoda vice-chairman. cables in Nitra. VW also has low-volume

Poland and Bosnia producing Skoda Felicias. Skoda is now considering adding Rus- 8.6 per cent last year sia in order to overcome the high tariff barriers and get closer to what it sees as an important future market, mies slow down. Skoda is the top imported car into Russia, though sales last year were half those ause of the country's financial crisis.

In December the Czech Sales figures for January and Russian governments were even worse, down 55 signed a letter of intent per cent compared with the which could lead to Skoda previous January. investing DM500m over five years in an assembly plant in Izhewsk in the Udmurtian Republic. The joint venture with the carmaker Izhmasch to assemble Felicias could begin in the autumn and after five years produce 80,000 cars a year.

Europe. The question is how as value-for-money VWs.

Europe," says Detlef Wittig, But Skoda is also looking

west. The company car assembly operations in increased sales in central and eastern Europe (excluding the Czech Republic) by although future sales in the region are likely to suffer as the Czech and Slovak econo-Czech sales fell 18.6 per

cent last year to 81,729 - 55 per cent of the market -

By contrast in western Europe, which comprised 47 per cent of its worldwide sales last year, registrations soared by 37.2 per cent to 172,058 as the Octavia revolutionised Skoda's poor image. The new Skodas, built on VW common plat-"We have covered central forms, can now be marketed

Foreign cash is drying up

Multinationals downsize, delay or abandon amid fears there may be worse to come

984,609 units in 1997, as the December fell 18.9 per

In the 1990s, the auto industry performed worse only in 1994 (797,924 units). The impact is stark, as 1997 was the best year since the tral-eastern Europe, under-Soviet Union dissolved in 1991, establishing Russia as the world's 10th biggest manufacturer of passenger vehicles ahead, of Canada, and behind Italy.

The 1997 upturn sparked big plans from foreign car makers, including Fiat, Ford, General Motors, Renault and Volkswagen, Even BMW and in production: 0.9 per cent to Volvo looked at opening 125,398 units in 1998 from

Now, though, all new international projects have abandoned. Existing ventures with the

Korea hardly helped. When the crisis hit, Rus- 20.599 in 1997.

Car production in Russia sian auto makers enjoyed a tumbled 15.3 per cent to brief burst of demand. Con-834,126 units in 1998 from sumers sought to preserve the depreciating value of fragile economy fractured their rouble savings by buyinto crisis last August. ing durable goods such as Yet worse might still come cars. But panic purchases as year-on-year output in abated with similar speed. as the proliferation of bank and business closures prevented ever more people from get-

ting cash to get a car. Lada-maker AvtoVAZ, the biggest car producer in cenperformed its flagging sector. Including subsidiaries Bronto and SeAZ, it cut output 19.1 per cent to 606,137 units in 1998 (its secondworst year) from 749,509 units in 1997 (its best year).

GAZ, Russia's second-biggest car maker - and biggest truckmaker - eked out a rise 124,339 units in 1997. GAZ is the only major auto maker been downsized, delayed, or raise output every year since

The biggest percentage South Koreans are troubled. rise in output came, surpris-Krasny Aksai, which assem- ingly, from Moskvich, whose bles Daewoo models, suf- models probably seem fered the biggest percentage attractive only to the ascetic fall in production (62.3 per and spartan. The company cent). No official data are neared death in 1996, buildout for plants assembling ing only 2,929 cars in a plant Hyundai and Kia cars, but that produced 189,000 units they have made only small in 1985. It made nothing last volumes, and each has strug- August. Yet its total output gled for months. Problems in for 1998 moved ahead 94.2 per cent to 40,000 units, from

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B). Service Industries:

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Countdown to the endgame

Continued from Page 3

America - two years ago the region supplied 5m of our tyres in Europe or the US; this year it will be 9m. As a result of our own rationalisation and global reach we are in a position to reduce or eliminate whatever high-cost production we have in obsolete facilities."

largest plant in the world, in Alabama, because of its high costs and low efficiency. Mr Gibara makes clear

that western Europe itself will not escape substantial rationalisation following the alliance with Sumitomo. Together, the two compa-

nies have 14 plants in Europe - indisputably too many, even though Goodvear expects dramatically to expand the sales of Sumiomo's Dunlop brand Like Conti and Pirelli.

Goodyear/Sumitomo will make its high value added tyres in western Europe and North America, using its low-cost plants in east European countries, such as Slovenia, and in Turkey to supply commodity tyres throughout the European

consolidation as inevitable. "Our competitors can have the choice of consolidating in Europe or in Japan. But how this will play out is very difficult to tell."

Clearly Goodyear thinks it may be difficult for Michelin to make a big move in Europe because of its market leadership and possible problems with the EU Commission. Bridgestone could run into a different set of problems - cultural for example

- in trying to work with an to the Dunlop products the develop the Dunlop brand Italian or a German com- advertising money and other the potential for us to get

Michelin, with a European market share close to 30 per cent, seems destined to come under competitive pressure in Europe to an extent it has Dunlop name as powerful as not experienced for years. thanks to Goodyear's ambitious plans. "Twenty years ago Miche-

Underlining the point, lin and Dunlop were the two Goodyear is closing its fifthmost recognised brands in Europe. We now have a wonderful opportunity to revive the Dunlop brand. The Dunlop name has lost some of its status simply because Sumitome could not afford to do the marketing and development needed to do justice to the name," says Mr Gibara.
"So we will make available

good communications programme we can make the one of the two or three best name brands in Europe. We will have two brands of

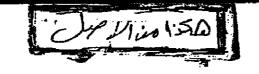
consumer." The Sumitomo deal gives Goodyear a European market share of 22 to 25 per cent share even without developing Dunlop further. "What's happened in Europe over the vears is that Michelin has held the lead, with the rest of us on 10 to 15 per cent. making it difficult for all of

resources that the brand closer to 30 per cent is real. requires. With a clever So we think we are going to advertising campaign and a have a healthier industry in Europe, and that's what concentration really is all A similar scenario is

needed, says Mr Gibara, in Japan. "In Japan you have equal value to offer to the one strong leader, Bridgestone, and three weak players. But now we're part of the family in Japan and feel that in a reasonable period of time - say three to five vears - we will have a leading, or at least acceptable.

By then, he predicts, the Japanese industry itself will already be down to two supus to compete. "Once we





Technical talent has been a big attraction, and helps to promote the industry as a driver of the national economy

sheet for western car and after the fall of communism.

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With no competition from domestic carmakers, Audi, General Motors, Suzuki, and Ford all moved into the most complex engine greenfield sites unburdened with a legacy of inefficient communist production methods.

In terms of knowledge, on the other hand, the motor industry has been tapping reserves of expertise formed over decades. Sandor Molnar, general director of Hungary's Economic Affairs Ministry, points out that this tradition is as old as the car

The carburettor was invented almost a century ago by Donat Banki, a professor at Budapest's Technical University, after he saw the fine mist created by a water spray at a flower stall. A Hungarian, Jozsef Galthe development of the Model T Ford.

It is this legacy of technical talent, observers believe, which, allied with low wages, has turned Hungary's motor industry into one of economy, generating sales in 1997 of \$2.9bn. Some \$2.5bn of those sales came from overseas, 15 per cent of the country's total exports.

One of the most vivid illustrations of Hungary's technical advance is the 130 robots which drill cylinder heads at the Szentgotthard factory of General Motors' Opel subsidscrew on the parts for one of

components.

The robots are the biggest such collection anywhere in General Motors. They do not only produce the parts more efficiently than humans; because each machine does all the steps in the process, they avoid the traditional production line problem that one breakdown halts the whole line.

None of this fits with the idea that eastern European manufacturing plants are low-wage, low-skill sweatshops - but neither do the skill profiles of the workforce. Some 53 per cent of Szentgotthard's Opel workers have a high school, college or university degree - a amb, was also a key figure in level of education which managers describe as "light years different" from the lower levels to be found in Germany.

> produced 265,000 cylinder heads last year, and 417,000 DM1.25bn.

POLAND by Christopher Bobinski in Warsaw

Record sales, but 'goodbye' to the locals

Daewoo is close to leading a market dominated by westerners who negotiated

beginning of the 1990s has woo that assembly would be been one of growing foreign investment

Opel, the General Motors manufacturers.

However, both GM and industry. The ambitious year ran to \$2bn. South Korean car maker has renovated the FSO car plant in Warsaw and built market share on the back of CKD assembled vehicles imported networks and brand aware from Korea. This year it ness, and waiting for tariffs looks set to topple Fiat as on car imports from the EU, market leader for the first now at 20 per cent, to be

time since 1992. Locally designed models to bring its Matiz model into

production. So far GM, which brought its new DM530m Gliwice share last year was down at plant on stream last 5 per cent, has a modest September, has stayed assembly operation in behind the game with sales Poland. of 42,000 vehicles in 1998. The Gliwice plant in the industrial district of Silesia in south-western Poland has facturing operations in the capacity to produce Poland come into full swing, 75,000 Astra Classic vehicles so will competition inside and will be expanded by the Poland mount. Fiat has been end of 2000 at a cost of exporting its Polish-made small city car.

which gives GM a 100 per tral Europe. Daewoo is also cent corporate tax break for set on developing exports 10 years and a 50 per cent from Poland. This year just cut for another decade. under 30 per cent of the These terms have annoyed 111,000 Lanos cars the Kor-Fiat, which makes cars at ean company plans to make Tychy and Bielsko Biala at Zeran will be exported. nearby and which started with several thousand production before the special planned to be sold in Gerzones had been established. many and France. By 2002 Fiat, worried by its con- Daewoo plans to sell 46 per

tracting market share, is cent of the model abroad.

Hungary presented a clean aluminium blocks, the engine plant was always the machines automatically most important project for components manufacturers recognise which of three engine sizes the block will fit. Then, in 25 separate operations, they drill and

The Szentgotthard plant the drivers of the country's engines. Opel South-east Europe has become Hungary's fifth-biggest company by turnover. The net profit for 1997 was DM284m on sales of

However, the figures have been achieved in an economic climate very different from that in the late 1980s when Opel - and rival Suzuki - first considered iary. Presented with basic investment in Hungary. An

promises of high tariffs on imports

Poles bought a record particularly angry at Daehalf-a-million cars last year, woo, which is still assemmaking the country one of bling part of its output in Europe's larger car markets semi knocked-down form to and making the sector one of avoid paying a 17.5 per cent the most important in the tariff on cars brought in from outside the EU. Howcountry's economy. The story for car ever, the government, mind-manufacturing since the ful of promises made to Dae-

Fiat of Italy has pumped tinue to permit CKD assem-\$1.4bn into Poland, while bly till the end of this year. Meanwhile, the govern-German subsidiary, has ment is happy to see the spent a more modest \$360m. main car manufacturers Both investors made their bringing their suppliers into commitment only after the country with them. "Fiat wringing promises of high is telling its suppliers to tariffs on car imports from establish operations in the Polish government as a Poland because the labour way of protecting their costs are lower than in westposition from competition by ern Europe," says Adam other European and Asian Pawlowicz, head of Poland's Foreign Investment Agency

(PAIZ). The same is true of Fiat were surprised when Daewoo and GM. Indeed, Daewoo entered Poland in these investments by foreign the mid-1990s, subsequently car component manufacturinvesting \$1.4bn in the ers mean that inward car country's car and van industry investments last Other European car makers, such as Renault. Volkswagen, and Ford, are concentrating on building dealer

tolerated for a time at least,

recently said it would con-

reduced to zero in 2002. Volkswagen won 11.5 per have all but disappeared: cent market share last year Daewoo will produce the thanks to its Czech-made, 1970s era lossmaking locally-assembled Skoda Polonez saloon car at FSO model. The German car only until the second half of maker is currently building this year. Daewoo then plans a diesel engine plant and a seat-making factory near Legnica at a total cost of \$190m. Ford, whose market

As tariffs on car imports from the EU come down and Daewoo's and GM's manu-DM370m to manufacture a cars back into western Europe and GM has said it The Gliwice plant is sited will be selling its Gliwicein a special enterprise zone made cars throughout cen-

Opel, but car assembly also initially looked a good way to penetrate closed Comecon markets.

More than 10 years on, that now uneconomic work is being wound down and the focus is entirely on producing components for cars assembled elsewhere.

Car assembly, meanwhile, is being phased in at the Györ plant of Audi, Volkswagen's executive car division. As well as producing 1m engines per year, the plant plans this year to do the labour-intensive assembly work on 50,000 Audi TT Cou-

As at Opel, the decision on what to do where has been driven by economics. "For a mass car producer like Volkswagen to produce a model of only 50,000 units a year is a very small volume," says Jürgen Hoffmann, executive manager of Audi Hungaria Motor. was important to reduce the costs, so that was the reason for the decision to produce the body and paint it in Germble it in Hungary."

Hungary's low wages have made largely manual production viable, Still another set of economic considerations brought Japan's axle supplier to the US. How-Suzuki Motor Corporation to ever, its bus and truck divi-Hungary. The tight margins in the high-volume, low-cost market in which Suzuki's Swift competes meant profit was always likely to be elu-

sive - making low fixed costs vital. Tadashi Kondo, Magyar Suzuki's sales director, describes profits for 1998 as "very low" on sales of Ft80bn. In 1997, the plant made net profits of just Ft1.65bn on sales of Ft77bn. Mr Kondo explains: "In Hungary we can get a rather

with reasonable cost. We think [Hungary] is for us the best place for production."
Ford, the US car maker, also has a factory in Szekesfehervar, making fuel pumps, starter motors and gears. The smallest of the multinational plants by sales, it had net revenues of Ft17.8bn in 1996.

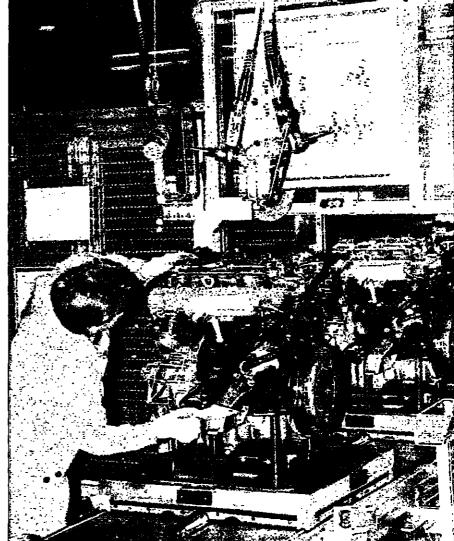
Meanwhile, in the shadow of these international invesmany at Ingoistadt, then to tors, a Hungarian-based the markets open as that

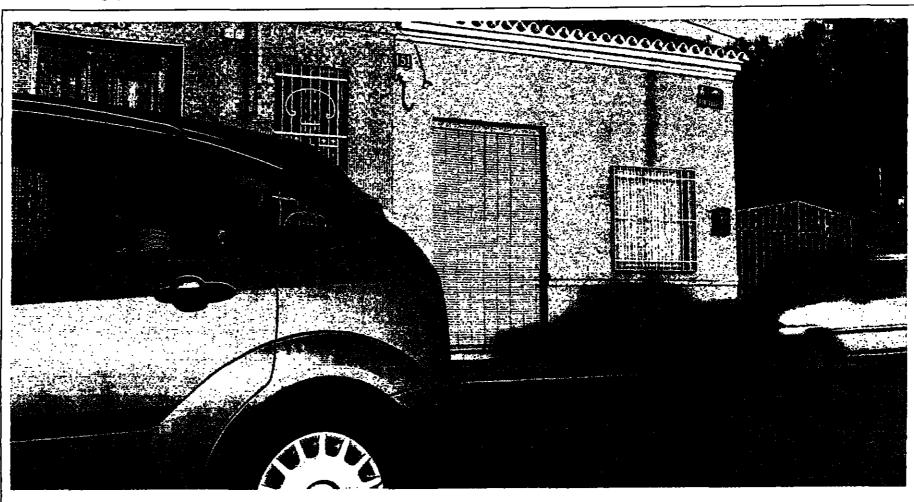
gling to escape the communist legacy. Raba, based next to Audi in Györ, has carved out a niche as a specialist sions - designated Comecon suppliers previously - have more question marks against their future, analysts say.

Ikarus, which once produced 16,000 buses a year, is in worse shape, having come close to bankruptcy because crisis-hit Russian customers could not pay their bills. Far more successful has been the tiny North American Bus Industries, a Hungarianowned company whose main factory, formerly owned by Ikarus, is in the US.

Both for these companies high quality of labour force and the multinationals the location of the most successful plants suggests the key to their future. Crowded mostly near the western border, all are looking to establish strong positions in western Europe or North America.

> While Hungary's low costs are helping many to compete on price now, there is hope technical prowess will keep





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hanging face of retail sector

The chairman of UK auto group Lex Service explains how companies such as his are needing to adapt to fresh demands

cars. I described how the car dealership system had in the UK, there has been enabled manufacturers to yet more consolidation of the develop their markets using the entrepreneurial skills and private capital of individual dealership propri- tribution of cars.

well for the car industry, but changes were occurring as from 2.2 visits per year in manufacturers increased their control over their distribution networks and created larger dealer territories to achieve economies of scale and to reduce competi- for a service plus, possibly, tion between neighbouring one other visit for a repair or dealerships of the same compulsory government

Since my speech the rate of change has increased, with Ford taking financial the proportion of drivers carstakes in dealerships in rying out their own repairs UK. Publicly-quoted dealer- in 1988 to 14 per cent in 1998. ship groups have expanded

In June 1997 I spoke at a rapidly in the US as dealer- of their cars has also encour- services which a car owner contract hire, and towards dealership groups.

There are many other factors affecting the retail dis-Increasing reliability has The system has worked reduced the need for servicing and repairs for new cars

1992 to 1.8 in 1998, according to research for the annual Lex Report on Motoring. Many UK drivers only visit their dealership once a year safety check (MoT).

The technical complexity of modern cars means that regions in the US and in the has fallen from 23 per cent Confidence in the reliability

European conference on the ship owners sought to capituture of the retail sector for cars. I described how the car business they had built up. aged drivers to keep their requires, typically under one risen from 3.5 years in 1988

to 4.1 years in 1998. The effect of these behavioural shifts is to alter the relationship between the customer and the dealership, making it much harder to maintain customer loyalty. Only 39 per cent of new car buyers had previously used the dealership where they bought their car, while for used car buyers it is 18 per

It is also clear that the internet is becoming increasingly important as a source of information on prices, specification and availability of both new and used cars. This, too, will break the relationship between the customer and the traditional car

The traditional dealership ume car dealerships towards provides the full range of business services, such as

roof. This is manageable when the scale is small. However, a volume dealership, selling 2,000 new and used cars, is now a complex multi-skill operation. It requires a manager with a wide range of experience in marketing, sales, administra-tion, financial control, inven-

tion control and personnel. The business is not profitable enough to support specialists in each of these areas, and it may not be viable even for large groups to exploit their scale by having such specialists centrally. Dealership groups have

tory management, produc-

reacted in different ways some have built up scale, others have built partnerships with specific manufac-turers, while in Lex we have moved away from high-vol-

motoring services. Other involved and have a groups have developed free-standing used car sites and networks of body repair cen-

The car retailing operation at Lex has been slimmed to 30 dealerships, representing a smaller number of brandhigh level of personal servic which is appropriate to the image of their cars.

Car retailing now accounts for less than 15 per cent of our profit. As an alternative to the large dealership territory approach, in our Hyundai importership - where we are responsible for the marketing and distribution of Hyundai cars in the UK - we have selected some 160 independent dealers. We call them our "Local Heroes": scale, and the dealer princi-

pal is a pillar of the commu-

long-term commitment to the product. The other change we have

made is to "unbundle" the traditional dealership. Instead of one dealer offering a wide range of services, we have shown that there is focused manufacturers a need for specialist chains where we can provide the of branded service providers who handle all makes of

Our focus has been on three areas of motoring services: servicing, used car sales, and body repairs. This has given us a major opportunity to build a higher margin business and to make the Lex brand stand for "trust" and "value".

We are building specialist chains of service centres, used car retailing sites, and large-scale bodyshops, operthey are typically small in ating in a fundamentally different way from traditional faction and loyalty. We are



Sir Trevor: 'Customer loyalty is more difficult to maintain

tral control over operations. pricing and marketing, while local site managers are left to concentrate on customer service and managing their people. They offer fixed prices and comprehensive no-quibble guarantees which lead to high customer satis-

competing against the poor-

quality non-franchised independent operator rather than the franchised dealer-

Through such changes Lex is now a broadly-based business and vehicle services group, largely insulated from the continuing changes in the car retailing world.

~

Buoyant demand boosts producers

Although some full-year figures are yet to be ounced, it is sale to say that collect Europe's car makers had a good year in 1998

and Vehic) have reported a fall in profit, and one (Flat) has slipped into loss.

RenauR, and VW) are expected to report

lings for the year, two (SMI)

All the producers benefited from buoya cent increase in new car registrations marked the fifth consecutive year of growth Similarly, those car makers with sales

demend in the region during 1998.

ntung in Asian markets had rely little impact on European pro les. The Mercer

at GM, and new products such as the LHS" principally due to the success of the M

the new Clip, and the Kanoon. The 1996 results for the VW Group will

New re	gistration	s of pas	senger c	ars ('000):	
Western	Europe	1995	1996	1997	
Austria ,		280	308	275	
Beigkern.		359	397	396	
Demmark		136	142	153	10.00

Western Europe	1335			10-24	(1998/1997)
Austria	280	308	275	296	7.6
Belglum.	359.	. 397	396	452	14.1
Demmark	136	142	153	152	- 60
Finland	80	. 96	105	126	20.6
France	1931	2132	1713	. 1944	13.5
Cennany	3314	3496	3528	3736	5.9
Greece	125	143	162	181	11.5
ireland	- 87	115	137	146	6.9
lialy	1745	1732	2404	2364	-1.7
Lexistrooting	29	31	32	36	13.2
Netherlands	446	473	478	543	13.6
Norway	- ´ 9f .	125	128	118	-7.6
Portugal `	201	218	214	248	16.1
Spain	834	911	1016	1192	17.4
Sweden	170	180	225	253	12.4
Switzerland	268	272	271	295 .	9.0
UK	1945	2026	. 2171 .	- 2247	3.5
Others	14	14	15	- 15	27_
Total	12055	12810	13420 .	14354	7.0
Eastern Europe	, -	43.			
Sulgaria	- 1f	8.0	8.0	11	41.0
					1.0
Former Czechosłoval		228	230 997	232	-36.2 .
Former USSR	767	<u>:</u> 842 -		636	
Former Yogoskada	68	96	132 · · · 80 -	158	. 197
Hungary	59	. 75		108	35.3
Poland	264	373	478	513	7.3
Romania	- 86	97	- 96	- 104	8.3
Tetal	1401	1718	2020	- 1762	-12.8 -
North America Fre	e Trade Agn	90ment	:	+ 1	
Canada	677	661	736	740	0.5
Mexico	117	200	301	426	41.5
US	8636	8529	8289	8183	-1.3
Total	9430	9390	9326	9349	6.2
Latin America				 	·
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Argentina					
Brazil	1411	1401	1561	- 1232	-21.1 -29.5
: Flest of Latin America	2215	540 2237	2551	2029	-20.5
Total	2213	2231	2301	2123	
Asia -			<u> </u>		<u> </u>
China	433	401	465	419	-9.9
india .	394	465	508	509	0.2
Indonesia	38	. 44	- 73	12	-83.6
Japan	4444	· 4669·	4492	4093	-8.9
Malaysia - · · ·	225	276	308	132	-57.1
Philippines	71	· 89	76	38	-50.0
South Korsa	1149	1239	1151	568	50.7
Talwan	415	363	358	356	-0.1
Theiland .	163	173	132	42	-68.2
Rest of Asia	79	74	90	84	-6.7
Total		7793	7652	6253	-1B.3
	7407				
Middle East	7407				
Middle East		- <u></u>	-295	· 288	-25
Middle East Turkey	199	217	-295 540	288	-2.5
Middle East Turkey Rest of Middle East	199 454	217 499	. 540 .	567	5.0
Middle East Turkey	199	217			
Middle East Turkey Rest of Middle East	199 454	217 499	. 540 .	567 855	2,3
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Middle East Turkey Rest of Middle East Total Africa Oceania	199 454 653 458 568	217 499 716 550 583	540 835 525 588	567 856 558 542	5.0 2.3 6.3 9.2
Middle East Turkey Rest of Middle East Total Africa	199 454 653 458	217 499 716	540 835 525 588 36918	567 656 558	5.0 2.3 6.3 9.2 -3.0

Of the seven main European car producers, four (DaimlerChrysler, PSA Peugeat Caraen,

Passenger car producers

	· · ·		REV	ENUE		• .					P	ROFTT			7 2.7	<u> </u>	
Europe	Correacy.	1998	1997	Percentage o	change (1998/97)	•	1998	1997			Percenta	ige change (1998/	97)			27 E	ixobs
BMW	DM(π)	63130	60137		5.0%	10	1020(e)	1246			-18.1%			_		.,	BMW
DalmierChrysler***	DM(m)	260000	229300		13.4%		10100(e)	8024				25.9%				DalmlerC	hrysler
VW Group	DM(m)	135000	113245		19.2%		2200(8)	1361	_			-	61.6%			W	Croup
Fiet Auto	L(bn)	48000	50734	-5.4%	·		-192	1468	-113.19	6						**************************************	est Auto
PSA	FFr(m)	221439	199051		11,2%		8770(e)	683						1184.0%			PSA
Renault Automobile	FF(m)	195077	165788		17.7%	:	8550(e)	901					8	18.9%	"Ren	amit Auto	mobile
Volvo Cars	SKr(m)	103798	96453		7.5%		3808	4510	·		15.6%					Vol	vo Cars
Japan		Figures are for the	pernod Jan-Dec				Figures are for	the period Jan-D	Xxx				٠.		4	· · · .	Japan
Honda	A(pu)	3133.5	2794.7		12.1%	Ţ.	158.2	126.5				25.1%			7. 7		Honda
Mazda	¥(bn)	. 1061.5	1025.3		3.5%	-:	8.5	-18.2					146.	7%	-		Mazda
Mitsubishi (non-consol)	A(part)	1106.3	1319.5	-16.2%		·	-28.6	. 8.6	-433.D%					.:	"Mitsubi	thi (hon-	cousof
Nisean (non-consol)	¥(bri)	1638.5	1775.1	-7.7%		<u> </u>	-32.5	38.5	-184.4%						~NEss	an (non-	consol)
Toyota	V(bn)	6200.0	5560.0	-	11.5%	- 1 1	· 192.7	. 240.9		· ·	-20.0%					-	Toyota
US	-	Apré-Se	plember		· — —	÷.	April-1	September							-:: - <u>.</u>	`.: <u>:</u>	US
Ford -	\$(m)	119038	122935	'-3.2%		÷	4752	4714				0.8%			· · .		Ford
GM	\$(m)	161315	171184	-5.8%		∹.	2956	6314		-53.2%					· · · · · ·	475.	"GM
		Jaruary-	December		,		. Jeruary	-Orander							* Operating	page	Net profit

••		
Production of	passenger cars	('000')

		14 (000)	·							<u> </u>	
Western Europe	1995	. 1996	1997	1998	% change (1996/1997)	Latin America	1995	1996	1997	1996	% change (1998/1997)
Austria	59	97	91	83	-0.1	Argentina	277	269	366	353	0.0
Belgkim	1168	1144	1005	1001	0.0	Brazil	1363	1467	1676	1245	-0.3
Finland .	. 0	0	20	11	4.5	Rest of Latin Americ		42	108	1.111	- 00
France	. 2047	2088	2259	2582	0.1	Tabi	1577	1778	2148	1709	-02
Germany :	4360	4540	4678	5348	0.1	100.00	1977	****		777	
italy	1422	1318	1563	1378	-0.1	గ్రామం చేశాను చేశాలు. •••••			ing in Norte		
Netherlands	. 100	145	197	- 243	. 0,2	Asta	 		<u> </u>	,	
Portugal .	73	153	186	181 - :	0.0	China	376	494 _	529	485	-0.1
Spain	1959	1942	2010	2158	0.1	inde	389	472	486	489	0.0
Sweden	. 388	368	376	369	0.0	Indonesia .	40	35	55	22	-0.6
UK	1532	1686	· 1698	1748	0.0	Japan	7611	7864	8492	8056	0.1
Total	13168	13481	14095	15100 .	0.1	Malaysia.	252	305 .	363	181	-0.5
Eastern Europe			· 			- Philippines	- 73	77	58		-0.4
Bulgaria	2.0	1.0	. 0.0	0.0	0.0	South Korea	2903	2265	2308	1825	-0.3
Former Czechoslovalda	213	270	362	484	0.3	Talwan	282	265	268	268	0.0
Former USSR	893	888	1052	929	-0.1	Thailand	128	139	112	50	0.8
Former Yugoslavia	95	98	107	92	0.1	Total	11154	11916	12672	11194	-0.1
Hurngery .	. 51	63	76	94	0.2	IUM		11919	12012		
Poland	391	442	538	615	0.1		<u>. </u>		· · · · · · · · · · · · · · · · · · ·	· · · · · · · · · · · · · · · · · · ·	<u> </u>
Romania	92	117	128	129 :	0.0	Australia	294	315	- 303	303	0.0
Total	1736	1879	2263	2343	0.0	South Africa	224	226	208	195	-0.1
N. America Free Trad	e Agreement			+ 1.		Torkey	233	200	238	233	0.0
Canada	1365	1299	1376	1457	0.1	WORLD	36734	37930	40050	39047	6.0
Mexico	700	816	855	953	0.1						
US	6342	6070	5922	5560	-0.1					11, 11, 11	
Total		4-45							•		

Financial Times Surveys

FT Auto

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FINANCIAL TIMES No FT, no comment.

CENTRAL-EASTERN EUROPE

Daewoo gnaws at VW's lead

Europe for a third consecutive year in 1998. But Daewoo, the South Korean manufacturer halved this edge, capturing nearly 40 per

cent of the region's growth.

Overall, sales jumped 7.3 per cent to 1,237,840 units in 1998 from 1,153.915 units in 1997, for 11 countries report-Croatia, the Czech Republic. Estonia, Hungary, Latvia, Lithuania, Poland, Romania,

Slovakia and Slovenia. These figures cover new

tonnes gross weight.
Although VW led the way, it suffered from the 18.2 per cent downturn in its main market in the region: the Skoda, generated 62.3 per cent of sales by the German group, which also includes Audi. Seat and speciality brands. VW's regional sales dropped 2.8 per cent as its share slipped to 20.8 per cent in 1998 from 23.0 per cent in from each of its four main

auto group in western buying six state-owned auto-Europe, led the booming makers in the region since markets of central-eastern 1995, increased sales 17.8 per cent to 218,690 units in 1998 from 185,680 units in 1997. This cut VW's lead over the Korean group 51 per cent to

Daewoo's increased sales of 33,010 units reflected 39.3 per cent of the overall rise in demand of 83,925 vehicles. Fiat, the region's leader from 1998 to 1995, fell further. Its sales slid 5.8 per cent to 195,599 vehicles in 1998 from 207,751 units in

The Italian group (Alfa light vehicles not over 3.5 Romeo, Flat, Iveco, Lancia and speciality brands) has been handicapped by its narrow focus in the region. It owns a huge car making complex in Poland, but it makes no light vehicles elsewhere in central-eastern Europe.

In contrast, VW has built its lead on a broad presence. The German group still centres its strategy on Skoda, but it also assembles models marques in Poland. It makes Daewoo, which has gearboxes and VW cars in New light vehicle registrations, 1998

:						former	100027	1990	
otal market	1,237	+7.3	100.0	100.0	- Hyundai	13,663	+9.2	1.1	_
				•	Honda	19,723	+14.4	1.8	
lanofacturers:		٠.			Misean	18,782	+9.2	1.5	
felkswager group	257,458	-2.8	20.8	23.0	DaimierChryser group	13,771	+4.8	1.1	
- Skloda	160,329	-6,2	13.0	14.8	 Mercedes-Benz 	12,107	+1.8	1.0	
- W	85,404	+6.8	5.3	5.3	- Chrysler	1.340	+33.7	0.1	
- Seat	24,976	-4.5	2.0	2.3	- Jeep	272	+23.1	ō.a	
- Audi	6.749	+22	0.5	. 0.6	- Other	52	+529.0	0.0	
lacento group	218,690	+17.8	17.7	16.1	Mazda .	12,417	+8.2	1,0	
Dagwoo.	169,286	+55.8	13.7	9.4	BUN protes	7,117	+2.3	8.6	
Polonez	34,479	44.4	2.8	. 5.4	- Rover	3,450	-15.6		
Lublin/Zuk	13,514	-3.6	1.1	1,2	- BNW ·	3.206		0.3	
Tevris	- 585	+760.8	0.0	0.0	- Land Rover	448	+30.0	0.3.	
Sangyong	562	+0.9	.0.0	ũ	- M6	15	+13.5	0.0	
Other .	. 283	+2.9	0.0	<u></u>	Mitsubletii		+66.7	00	
jet group	195,599	-5.8	15.8	18.0	Volvo	6,998	+10.2	. 0.6	
natystep Pat	187,756	-7.5	15.2	17.6	AvtoVAZ (Lada)	3,884	+25.9	0.3	
· Alfa Romeo	5.072	+141.0	0.4	0.2	ARO .	3,433	-20.4	0.3	
	1.695	20.6		0.2		2,255,707	-12.8	0.2	
Meco Lancia		+105.2	.0.1	0.2	Feli (Suberal)	1,212	+15.2	0.1	
	1,073	-75.0	0.1		Other	2,091	-31.9	<u>0.2</u>	
Other .			0.0	0.0.5	Markets:				_
acla	104,585	+7.0	. 84	8.5	Poland	565.098	+6.2	45.7	
eseral Motosa group	88,966	+9.0	7.2	7.1	Czach Republic	156,813	-18.2	12.7	
Opel	88,357	+8.7	.7.1	7.0	Romania	138,974	+24.6	11.2	
Saab	574	+87.0	0.0	0.0	Hungary	126,588	+30.5	10.2	
Cither	55	-31.3	0.0	0.0	Slovakia	76,394	+10.6	62	
ecost	68,882	+21.5	5.6	. 49	Slovenia	72,607	+11.2	5.9	-
SA group	65,604	+21,0	5.3	4.7	Croatic	61,399	+9.7	5.8 5.0	
Citroèn	3,373	+22.9	2.8	2.4	Estonia	12,573	+3.7 -2.0		
Paugeat	31,2312	+19.0	2.5	23	Bulgaria	12,196	+56.5	1.0 1.6	
ord greep	59,855	+5.1	4.8	4.5	Latviay	8,674	+56.0	0.7	
Ford	69,751	+5.2	4.8	4.9	Littusenta	6,524	+35.8	0.7 9.5	
Other	104	-1.0	0.0	0,0		-			
uzda .	30,981	+48.8	25	1.8	DandlerChrysler Other Includes [odos Excle and P	Semonth Rat	Other Inchese	C.
oyota group	27,866	+35.1	2.3	1.8	MARKET AND LINES INCLUDES .	130 mir Chrenin .wa	Mercury, GA	i Other inches	-
Toyota	27,550	+34.5	2.2	1.8	CONTRACTOR OF LINES AND A PARTY OF LAND A	itiac and Saturn.			
Catalau	316	+83.7	0.0	0.0	Some Agures are rounded				
Anudal Buoris	27,591 12 029	+35.7	2.2	1.8	Steamer B.IT Inhometion Constant				

Audi's new TT roadster in 104,565 units, General Motors Hungary.

Daewoo, Fiat and VW were the only auto makers to sell more than 150,000 vehicles in the region in 1998. Together they captured 54.3 per cent "Big Three" were Dacia with

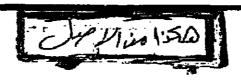
Peugeot-Citroën (65.604). Renault could challenge a fading Fiat for third place if it closes an expected deal to continues in Romania, buy Dacia, a state-owned

Combined. Dacia and the to produce cars. French company sold 173,447 units in 1998, only 22,152 behind the Italians.

Daewoo could overtake where the Korean company of the market. Following this automaker in Romania, is the only foreign investor

Poland remained the selling 565,098 units in 1998. eclipsing the Netherlands as VW this year if the upswing Europe's seventh-biggest

Ryan James Tutak



Makers tune in to leasing

Finance subsidiaries are now showing a growing interest in pan-European one-stop shops for company transport

ing their car fleets on a pan-European basis is becoming reality.

Leading independent specialists in the fleets and leasing sector, such as Amro already well advanced with developing cross-border car leasing and fleet management operations.

Their proclaimed function is to relieve client companies of the administrative burdens - frequently nightmares - of buying, running and disposing of company cars within still widely varying EU member-state vehicle and taxation rules and regu-

Now vehicle manufacturers, in the form of their finance subsidiaries, are also starting to move in.

By the end of this year, debis Car Fleet Management (dCF), part of the new automotive giant DaimlerChrysler, will have expanded beyond its home base in the UK into every sizeable country in continental Europe, including company car emerging markets such as Poland and the Czech Repub-

In mid-February Volkswagen. Europe's biggest vehicles group, announced the creation of international Fleet Management, a third wholly-owned unit of its also aimed at capturing management of large, multina-

NEW AND UPDATED by Haig Simonian

The concept of one-stop operations being set up or shops for companies operat- contemplated by a growing number of rivals, the VW management company is concerned with all makes of car, not just those produced by the group. A basic ingredient of the leasing business Bank-owned Lease Plan, are is to acquire whichever vehicles, irrespective of brand, the client company wants to operate, not those

> DCF itself has already set up operations in the Netherlands and in Germany, where its ultimate parent has its European headquar-

wishes to sell

The attraction, as Hubertus von Zastrow, its managing director, points out, is that the company car fleet is normally the second-highest overhead for a company after its employees. The complexities of pan-European operations have inevitably put managing it more effectively higher up most large companies' agendas.

Like most of its rivals, debis' packages range from all-inclusive contract hire to management services - the basic functions on which the leasing and fleet management sector has been based. at a national level, for several decades

The new dimension of pan-European fleets, however, means that the companies financial services division, owning or operating them are seeking single, all-in deals covering the lease or purchase of their vehicles Like debis, and similar wherever they may be based,



or by whichever national subsidiary the vehicles might actually be run.

"There is no doubt that there are scale advantages to be gained," says Alexander Weissleder, managing director of Mercedes-Benz Finance and responsible for the West European and South African operations of debis Finanzdienstleistungen, the "captive" finance organisation of Daimler-Chrysler. For all the effort going

into pan-European activities, it is still a fledgling business - 80 per cent of the cars being leased or managed by dCF are still to mainly small companies operating entirely within the UK, says Mr Weissleder. "And it will probably stay that way for the next three to four years." The dCF international

companies running fleets of

at least 25 cars - and usually ple - is sustained. Such

much is being learned about the emotions, politics and tensions which can arise over company car policy between national offices of a large corporation and those at HQ concerned only with minimising the fleet bill. "For example, an Italian

local office - with its own preferred cars and ways of running them - is likely to say 'you can't do that here' when there is an attempt to impose a central policy. That situation needs someone like us to simplify things," says Mr Weissleder. How rapidly the pan-Euro-

pean element of the business will grow is open to question. One significant factor will be whether the recent spate of large-scale mergers and acquisitions across a number of industrial sectors operations are targeting - including that of Damiler-Benz and Chrysler, for exam-

activity has already played a big role in the growth of international business to date, says Mr von Zastrow.

dCF is creating its own pan-European operations from scratch, rather than seeking possible partners.

The partnership route has been promoted by some of the leading independent groups, arguing that it makes sense to tap existing expertise in complementary markets. But it is not an approach favoured by dCF there is no way of obtaining expertise in this manner to cover the whole of Europe."

Part of the reason relates to the wide differences in company car populations in individual European states. In some countries, such as Italy and Spain, fleet leasing and management is a recent phenomenon, with current annual growth rates of around 30 per cent. Germany is growing at about half that rate, while the UK market. approaching saturation, is now growing at about 5 per

Like the automotive industry itself, the vehicle fleet finance and leasing industry faces a further period of consolidation, predicts Mr Weissleder. Despite the emergence of several dozen large players, it remains a fragmented business, with 450 companies operating in the UK sector alone. Manufacturer-owned operations. he forecasts, will move in to take an increasingly large share of the business. But the main losers will not be rival large independent groups but "the many smaller companies which

to Ford in the US. Only through new business can the company demonstrate it is more than a captive supplier. Delphi, the world's biggest automotive supplier, has already learned the days of guaranteed contracts from its parent company are over.

PEOPLE by Haig Simonian

Visteon's new chief has eye on market

Will Craig Muhlhauser, Visteon's new president, be the man to lead the world's second-biggest automotive supplier to the stock mar-

The chances of Ford floating its former Automotive Components renamed Visteon more than a year ago, have increased after last month's successful \$1.7bn flotation by arch-rival

Delphi. General Motors's initial public offering of 17.7 per cent of its Delphi subsidiary has opened a path for other components groups to go to the market. American Axle and Manufacturing, a

buy-out largely composed of former GM plants, is a minnow by comparison. But it used the awareness created by the Delphi deal to slip in abead with an initial public offering of 7m shares to raise \$119m at the end of January.

Mr Muhlhauser, who oined Visteon from the Pratt & Whitney jet engines arm of United Technologies in July 1997, is not trumpeting his stock market goals. But Ford's planned acquisition of the car operations of Sweden's Volvo could bring him a step closer to achieving one of the aims, which, analysts say, he must meet for potential investors in Visteon to cough up.

The Volvo deal should help Mr Muhlhauser meet his target of reducing Visteon's dependence on sales

about \$26bn of new supply contracts were up for grabs

January 1. Mr Muhlhauser argues Visteon has two telling advantages over big rivals such as Delphi, Dana or Valeo. The first is systems competence. Every supplier worth its salt is talking systems

now, Visteon he claims, is special. He argues the company has genuine technological leadership in some areas. "What distinguishes our air conditioners from those of, say, Valeo? In this business, if you're not out in front, you get run over." He also stresses Visteon's

"financial muscle" - and hints at Ford's even bigger resources behind it. With more than \$10bn in net financial liquidity, even after the Volvo deal, Ford is currently one of the world's richest car makers.

Customers' awareness of that should help Visteon its massive economies of pitch for new business, he argues. "Our objective is to have more and more of the financial muscle to assume Ford's Volvo purchase the risk for original equipshould allow an entrée to a ment makers." Such risknew customer. Even before taking, he believes, is crucial the deal. Mr Muhlhauser as vehicle makers shift more regarded Europe's car mak- research and development ers as a prime opportunity and manufacturing work to given his estimate that suppliers to drive down costs and raise profits.

Mr Muhlhauser also hopes in the region this year alone. he can harness Visteon's Appointed president to technological capabilities in succeed Charlie Szuluk on new ways. Helped by his

non-automotive past, he has spotted opportunities to sell to new customers outside autos. "Highly-admired companies, such as 3M, have core competences like adhesives but are always looking

for applications elsewhere he says. Visteon, for example, has real expertise in compressors, which lie at the heart of the air conditioning systems which are one of its fortes. But its compressor technology also lends itself to other opportunities, such

as power generation. Others have been thinking along similar, if less hightech, lines. Delphi has been trying to find new, non-automotive, customers to reduce its dependence on GM's North American plants. It now sells wiring harnesses to the aerospace sector. With scale, Delphi can produce such parts far more cheaply

than traditional suppliers. Whatever their product differences, such strategies suggest leading parts makers are thinking along similar lines to develop new business opportunities. As with Delphi, so with Visteon, moving away from the heritage of being a captive supplier is a vital step for the future. Mr Muhlhauser may be Visteon's best helpmate

Crossing over to Detroit

Ford Motor may have bought - many would say saved - Jaguar, but it is gratifying to see the UK luxury car maker rewarding its US parent by offering some brainpower in return.

David Szczupak, the chief programme engineer on Jaguar's new S Type, which is shortly to go on sale. will next month hop over to Detroit to take the top job at Ford's global powertrain engineering operations.

The genial Mr Szczupak will not be running the whole show: he will report to Roman Krygier, Ford's head of powertrain operations, responsible for manufacturing as well as design, and, indirectly, to Richard Parry-Jones, the talented Welshman in charge of overall product development. But Mr Szczupak, who made his name heading the team behind Jaguar's highly-ac-



David Szczupak: masterminded the Jaguar S Type engine

should prove a valuable appointed chief programme addition to Ford's engine engineer for the S Type. development boffins. Two With the new model already years after becoming chief winning plaudits in the engineer of Jaguar's engine press, Mr Szczupak's star claimed AJ V8 engine, programme in 1994 he was looks set to carry on rising.



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After almost four years near the top of Europe's best-selling family car league. Peugeot has decided to freshen up its 406. The most striking aspect of the facelifted the Geneva motor show this month, are a new front, with narrower, more aggressive headlights, and a restyled rear.

facelift

Peugeot claims the revised 406 has about 1,000 engineering changes, including a new generation of lighter, more economical petrol engines.

The new 406 will appear just as Renault and Fiat are refreshing two of their most popular models. Most of the external differences to Renault's Mégane and Fiat's Bravo/Brava would escape the untrained eye, but the alterations inside are more striking, including

new dashboards. Small family cars like the Mégane and the Bravo/Brava slug it out in the biggest, but most competitive, segment of the European market. With newer products such as VW's Golf, the Opel/Vauxhall Astra, and the Ford Focus threatening to eclipse Renault's and Fiat's offerings, such mid-life facelifts have become a necessity for car makers. General Motors has high hopes its

new Zafira people carrier, badged as an Opel in continental Europe and a Vauxbail in the UK, will quickly terminate the monoply on the sector held by another of Renault's Meganes, the top-selling Scenic. So confident is GM, that its Euro-

pean planners have decided to raise Zafira output before a single unit has been gone to a customer. The car will not go on sale until after its debut in Geneva. To meet the expected demand, GM

is increasing output this year to 140,000 units from the 120,000 planned. By 2000 production should reach 200,000.

The upgrade follows a forecast by GM's planners that sales of such people carriers, built on the platforms of lower mid-sized family cars, will soar fivefold by 2005. In 1998 the niche pioneered by the Scénic accounted for about 2 per cent of the European market, or 280,000 units. GM expects that to reach at least 10 per cent in the next six years,



COMPANIES by Haig Simonian

Italians and French in joint venture

tighten further when the two companies next month finalise their latest

joint venture. Fiat's Comau industrial automation subsidiary is to buy 51 per cent of Renault Automation, the French car maker's similar subsidiary. file operations - although its Under the terms Fiat has an option renown tends to be restricted to to take the remaining 49 per cent

between 2002 and 2004. The link follows last November's

almost 67 per cent of the pooled company. Not much earlier. Fiat and Renault decided to put their bus plant. activities into another joint venture, Iris,Bus.

Comau is one of Fiat's highest prorobotics and process engineering specialists. Among its customers, apart from Fiat itself, are Mercedesmove by the two groups to combine Benz. The German luxury car maker their foundry operations, with Fiat's installed Comau units on its A Class

Links between Fiat and Renault will specialist Teksid subsidiary taking production line at the Rastatt fac. About 85 per cent of turnover came units seen at Fiat's showcase Melfi

Financial details of the latest Fiat-Renault link will not be released until the formal agreement is signed in April.

Comau, which is 65 per cent owned by Fiat, had sales of L1.600hn last year. Sales at Renault Automation, which employs nearly 800 people at three factories in France,

from Peugeot-Citröen. Is the latest transaction another step on the way to a Fiat-Renault

merger? Analysts are doubtful: the overlaps are so great any marriage would lead to massive redundancies. But the trio of recent deals demonstrates the pressures on even sizeable vehicle groups such as Plat and Renault to cut costs and improve efficiency in a ruthlessly competitive

28,480,000,000 dollars in revenue 800,000+ integrated circuits produced daily 200,463 employees worldwide 15,000+ dedicated engineers 1,450 records of invention per year 190 product lines 169 global manufacturing sites 163 quality awards (past 3 years) 123 IRL and CART wins 90+ years of experience 53 union partnerships 51 customer service centers 40 joint ventures 36 countries 27 technical centers 25 customer teams 6 hours...a new product or process 4 regional headquarters

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INSIDE

Lycos fights merger move

Robert Davis, chief executive of Lycos, is fighting hard to defend the planned merger of his high-flying internet company with the less glamorous Home Shopping Network, the television shopping channel. Page 22

this week will be on the

alert for signs of mone-

Currency markets await policy shift The currency markets

Euro against the dollar \$100 E

tary policy changes in the euro-zone and the 1.16 US. The European Central Bank's governing council meets on Thursday with a very public battle over monetary policy continuing

between Oskar Lafontaine, the German finance minister, and Wim Duisenberg, president of the ECB. Currencies, Page 26

Poor start for Colombian shares Economic recession, higher taxes and

asphyxiating interest rates have not provided the best of starts for Colombia's stock markets this year. Since the beginning of January, Bogota's IBB Stock Market Index has fallen 20.5 per cent in dollar terms, and it is now the region's third worst performer after Brazil and Venezuela. Emerging markets, Page 22

Tokyo stocks braced for low profits The Tokyo equity market has stood up surprisingly well to a rolling barrage of profits warnings in the past fortnight from some of Japan's leading blue-chip companies. However, questions remain whether the market has adequately priced the full scale of the profits downgrades that are likely to be announced before the end of the financial year on March 31. Page 25

Greenspan relies on bond market Over the past six months Alan Greenspan, chairman of the US Federal Reserve, has been trying to rein in the booming US economy, largely by talking down the equity market, without success. Now Mr Greenspan appears to be encouraging the US government bond market to do the job of monetary tightening for him. Government bonds, Page 24

UK interest rates on the agenda The Bank of England's monetary policy committee will hold the UK stock market's fate in its hands once again as it decides whether to alter UK interest rates. Page 25

Britain's bingo revival

The UK is seeing a revival of bingo, the social gambling game generally played by middleaged women. The game's core constituency is growing and it stands to benefit from recent advertising deregulation. Gala, Britain's largest bingo club operator, believes it is Britain's "new growth industry". Page 21

ons-koyce reports

Shareholders in Rolls-Royce will discover when it reports this week whether the UK aerospace and industrial power group has achieved its target of double-digit earnings growth. Page 25

FT GUIDE TO THE WEEK

full listings Page 36

BANANA DISPUTE RIPENS The dispute settlement body of the World Trade Organisation in Geneva is due to establish a panel on Tuesday to examine the controversial Section 301 of US trade law, used by Washington to threaten sanctions against the European Union in their dispute over bananas. CHERNOBYL REACTOR MAY REOPEN The last operational reactor at the Chemobyl nuclear power plant in Ukraine could reopen from Tuesday, according to officials in Kiev. JAPAN GOES ON THE PILL

The central pharmaceutical affairs committee of Japan's ministry of health and welfare is expected to recommend at a meeting on Wednesday that the contraceptive pill be

COMPANIES IN THIS ISSUE

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Energy group threat to leave Germany

By Tony Barber in Frankfurt

RWE follows Allianz in protest against tax reform plan

Colaninno's search for new in cash, shares and bonds

RWE, the German energy and industrial group, has threatened to transfer some of its business operations abroad in protest at the centre-left government's planned tax

It was the second warning in less than a week from a large executive. Henning Schulte-German company and underlined the scale of disenchantment among business leaders with the tax policies of Chancellor Gerhard Schröder's administration. Allianz, the Munich-based

insurance group, said last

management and international mar Kuhnt, said in a letter introduced tax reforms targeting insurance companies. Yesterday, Allianz's chief

Noelle, suggested his group might form a European-wide holding company and move its headquarters out of Germany. "That can just as well be in another country of the European Union as Germany," he was quoted as saying in the

industrial insurance out of addressed to members of the Germany if the government German parliament's finance committee that the reforms would impose an extra DM25bn (\$14bn) in taxes on German utility companies. Under the government's proposals, companies would have to pay taxes on their capital

RWE said a heavier tax burden would force the company to reconsider its planned investment in the Garzweiler Wednesday that it might trans- newspaper Welt am Sonntag. II lignite mining project near

fer operations such as asset RWE's chief executive, Diet- Düsseldorf. "We have to review the whole investment plan," said a company official, Dieter Schweer, "It's a question of at least 14,000 jobs. If the investment position is no longer attractive, we will examine every possibility of transferring our investments

> raw materials, petroleum. chemicals and waste management operations as well as its main energy business

ber, RWE and other energy groups found themselves at odds with the new coalition government over its intention to phase out nuclear power. However Chancellor Schröder. to the annoyance of his Green ministers, later watered down this initiative.

Some senior German executives believe the chancellor is more pragmatic than many of RWE has extensive mining. his colleagues and can be persuaded to amend government policies in the interests of business. Representatives of the insurance industry are Almost immediately after expected to meet Mr Schröder the Social Democrat-Greens on Wednesday.

giant wins its London

Consumer Industries Editor

Shares in South African Breweries, the world's fourthlargest brewing group, start conditional dealings on the London Stock Exchange today at a price of about £4.30 each.

The expected pricing values the company at some £3.4bn, qualify SAB for membership of the FTSE-100, ensuring interest from tracker funds that shadow the index. The group hopes to be admitted to the index after the quarterly review meeting of the UK indices committee on March 10.

Some UK fund managers had complained that SAB's membership of the FTSE-100 would force them to increase their exposure to emerging markets. This led to market rumours at the end of last week that the issue was in difficulty.

In the event, and after a late rush on Friday, the book was more than covered with more than two-thirds of the placing going to UK institutions. Around a fifth went to US investors and the rest to Europe and Japan.

The group placed new shares worth £150m to finance expansion in eastern Europe. The placing allowed two large South African industrial groups to sell stakes of 4.95 per cent of the existing shares. SAB is expected to list in

London on March 8 following its delisting from the Johannesburg stock exchange on Friday, SAB shares fell more than 3 per cent in Johannesburg on Friday, closing at R90 (£9.00.) The shares, which are being split two-for-one for the London listing, will start trading today at a discount of less than 5 per cent to that.

The managers of the placing - Flemings, Cazenove and Goldman Sachs - have the option to raise a further £50m

stabilise trading SAB has 98 per cent of the South African beer market and brewing interests in China, eastern Europe and many countries of sub-Saharan Africa, its move to London is designed to obtain access to deeper and more liquid capital markets, and an active part in the expected consolidation of the global brewing industry.

Olivetti to seek new allies in revamped offer for TI

By Paul Betts in Milan

Olivetti is expected this week its €53bn (\$58.8bn) hostile bid for Telecom Italia. The push will follow clearance for a revamped takeover offer, granted at the weekend by paper reports of behind-the-Consob, the Italian stockmarket regulator.

Roberto Colaninno, chief executive of the information technology and telecommunications business, is trying to enlarge Olivetti's group of core shareholders. This would ering a compromise that would strengthen his grip on the company and increase his chances of winning the much and Olivetti. larger telecoms group in Europe's biggest postwar takeover battle. He is expected to outline his

plans to increase the privatised telecommunication group's value as one way of wooing TI shareholders. Olivetti officials yesterday

industrial and financial allies to flank his north Italian busito seek new allies to support ness partners. These control about 15 per cent of Olivetti through Bell, a Luxembourgbased holding company. Olivetti denied Italian news-

> scenes manoeuvres with TTs core shareholders, including insurers and the Agnellis, the powerful Fiat family. These reports suggested Olivetti and the shareholders were considbacking a merger between TI TI also dismissed these

> chief executive, reiterated that it would be up to the market to promises to become a prolonged war of attrition.

declined to comment on Mr Olivetti's €10 per share offer - over rules.

too low. But Olivetti could sweeten its bid, especially if it manages to recruit supporters. Olivetti allies are believed to have already accumulated about 5 per cent of TL Mr Bernabe insisted the

market will judge the contest on the basis of which side offers the best prospects for increasing TI's value and the best industrial strategy.

Consob's decision to allow Olivetti to proceed with its revamped bid was a setback for TI. The privatised group assemble a group of investors had described the rejigged offer as "full of holes".

By approving the revised bid. Consob has tied TI's hands alleged attempts at compro- in taking defensive action. mise. Franco Bernabe, TI's With more than 1.5m shareholders and a stable core of those controlling barely 7 per decide the outcome of what cent of the capital. TI would struggle to bring together the required numbers to approve a Financial analysts consider defence under Italy's new take-



Top 10 investment banks take 77% of market

Capital Markets Editor

The world's leading 10 doubled their share of fee-Stern business school in New York. They now have 77 per cent of the market.

of market share in the hands of the top banks has coincided with an explosion in the global capital markets during the

group Securities Data, showed based and advisory business in that the top 20 investment the global capital markets banks increased their share of since 1990, according to the global capital markets busi- almost all of the market." ness from 80 per cent in 1990 to 97 per cent last year. The top 10 are Goldman

The growing concentration Sachs, Morgan Stanley Dean Witter, Merrill Lynch, Salomon Smith Barney, Credit Suisse First Boston, Warburg Dillon Read, Deutsche Bank,

the report. "You can foresee a situation where there are just 10 or 12 banks accounting for

The growth in concentration has been boosted by several trends. First, the average size of deals in the international debt and equity markets has increased sharply. This has disproportionately benefited banks with the largest and 1990s, from total volume of less J.P. Morgan, Chase Manhattan most efficient balance sheets.

than \$1,500bn at the start of and Lehman Brothers. "There The growth in deal size has cided with the retreat of Japacompanies and sovereign bor-

Second, the investment banking sector itself has consolidated, thus shrinking the number of global competitors while increasing their relative size. For example, SBC Warburg acquired the US bank Dillon Read and was then itself merged with Union Bank of Switzerland. The rationalisa-

the decade to almost \$4,000bn is still a lot of juice in this been spurred by the increasing nesse banks from the market. The findings based on statisfessor of international business, said Roy Smith, professor of international business. International. Third, a number of US and European retail banks have

withdrawn from investment banking, after failing to marry the different banking cultures. However banking analysts say there is little danger an oligopoly will develop. "If you look at other global sectors such as software, aircraft manufacturing or computers, you see much greater concentration of the sector has also coin- tion," said one analyst.

EDWARD LUCE GLOBAL INVESTOR

Not such a capital start

in Europe's capital markets after the launch of the euro have been disappointed. The much awaited growth of Europe's tiny junk bond market has been put on ice. The development of a genuine asset-backed market has also been slow, with only a handful of European banks daring to launch securitisations. And, if you exclude Olivetti's bid for Telecom Italia, the number of hostile corporate bids involving debt financings is stuck at approximately zero. Nevertheless, there are stirrings beneath the surface. Although the sub-investment

market looks set to remain quiet for the next few weeks at least, an impressive list of lower rated European investment grade companies has issued bonds for the first time. If the average rating of the European borrower was AA plus before the launch of the euro, it has fallen to about AA minus in the first two months of its existence, say bankers. Nothing dramatic. perhaps, and a long way from the situation in the US corporate bond market where the average rating is BBB plus. But, if you consider that this shift has occurred in just eight

weeks, it is significant. Much of the record volume in European corporate bond issuance can be attributed to public relations; companies like Alcatel, Repsol and BAT have happily sacrificed the liquidity and tighter pricing that comes with issuing in dollars for the kudos to be gained from launching shiny

currency. This explains why the volume of international bonds denominated in euros so dramatically outstripped those issued in dollars in January. However, much of the novelty has worn off and last month the dollar resumed its number one spot in the bond markets, accounting for 47 per cent of all international offerings versus about 40 per cent for Interest in the euro is low

among US borrowers and investors. From the point of view of large-scale borrowers such as Ford, the Federal National Mortgage Association or General Motors, the dollar is still an attractive currency in which to borrow because it offers a liquid swaps market. Swaps spreads - the rate at which you swap fixed rate money into floating rate

money - remain punitively tight in euros. To make matters worse, the markets have been charging three or four basis points for borrowers to swap floating rate euros into floating rate dollars. In a liquid market the charge on the swap should be zero. For the US investor, the euro

has been a non-starter. Quite apart from currency risk - the euro has depreciated by about 6 per cent against the dollar since 4 January - yields in the euro-zone are significantly lower than in the dollar market. With the yield on the 30-year US Treasury touching almost 5.6 per cent last week and the yield on the German 10-year benchmark well below 4 per cent, few US investors

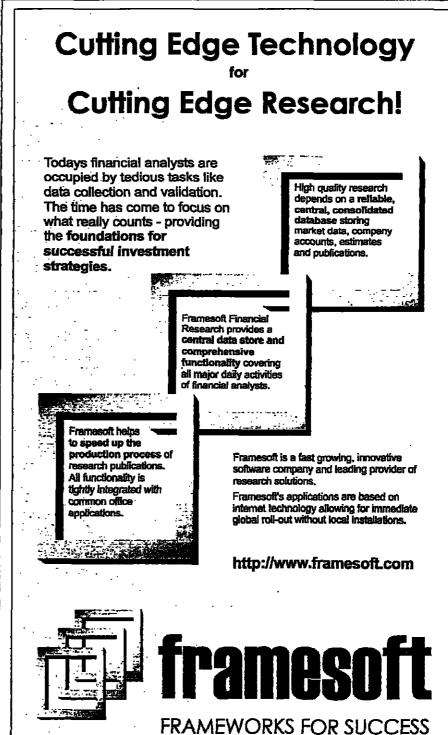
In addition, the forward markets are expecting the European Central Bank to cut interest rates in the next three months while opposite expectations are starting to prevail in the dollar market. So the euro looks set to remain weak against the dollar for some time. If you exclude the growing

Japanese interest in the euro, (which is mostly confined to the safest and largest government bonds) this means that the momentum for the development of the euro-denominated bond markets must continue to be drawn from within the euro-zone itself. The signs are that progress of an undramatic kind will continue here. The leading banks say the

large Dutch, French and German institutional funds have started to put new money into cross-border bond offerings, Anecdotal evidence suggests a growing number of European retail investors from the Italian chiropodist to the Belgian dentist - are putting cash into fixed income mutual funds in the same way UK investors are switching out of gilts into Peps specialising

Chester Murray, head of Moody's Investors Service in Europe, reckons that the euro-zone will soon boast a handful of "super-funds" managing more than 620bn (\$22.2bn) in assets. With interest rates low, it is a fair bet most of this new money will flow into higher-yielding

in corporate bonds.



COMMENT

Canary Wharf

Nonetheless, Canary Wharf is chugging ahead with plans for

a flotation. This, the story goes, is not the dog it once was.

has sold or pre-let 1m-1.5m sq ft of office space - roughly a

quarter of all the space turned over in the City of London. Nonetheless, investors should not get carried away. The

one third of the development completed and tenauted has

been valued externally at £1.4bn. Apply trading and flotation discounts to that and the figure is £1bn. To get to the

and tax losses at more than £2bn (£3.2bn), before lopping off

2600m of on-going debt. By any standards, this looks aggres-

It looks particularly racy given Canary Wharf's exposure to the volatile financial services market. Can it continue to

poach City residents? Low rents belped it get a foothold in

Son in

Formanda Processor

set for **Swedish** purchase

By Susanna Voyle

Williams, the acquisitive security and fire protection group, is today expected to announce a £10m deal to buy a Swedish business.

The agreement to purchase Tempus - which will include the assumption of almost £1m of debt - will bolster the UK group's presence in the Nordic

Tempus is the leading fire protection brand in Sweden and will lift Williams's share of the Nordic market from 22 to 26 per cent. The group sells and services fixed and portable fire protection

The deal is Williams's third recent acquisition in the region after deals to buy two businesses in Nor-

Last week Williams strengthened its position in the Asia Pacific region with the \$120m (£75m) acquisition of FPD Guardforce in Hong

The latest deals - combined with the FFr502m (£53m) acquisition of the French Proteg fire protection businesses from Securitas of Sweden in January - are part of an effort to expand Williams's global presence in the fast growing service sec-

The former conglomerate has been focused on security businesses since the £1.3bn deal to buy Chubb, the UK lockmaker, in 1997 and has disposed of most of its nonrelated businesses.

Williams Scipher weighs up case for flotation

By Thorold Barker

Scipher, the technology development company formed through a management buy-out from Thorn EMI in 1996, is planning to Doat later this year.

The company, which is 20 per cent owned by EMI, is expected to be valued at about £100m. It would look to raise about £20m of cash through the float to fund new developments, valuing the existing business at £SOm "We have had no problems

so far in attracting [private] funding and are fast approaching the stage where we can put the case to insti-tutional investors." said its advanced technologies can be turned into profits. Kenneth Gray, chairman. Management bought the

company for £3.7m in 1996; when Thorn, the electrical retailer, was demerged from by more than 30 per cent

newspaper publisher, has

been encouraging an unoffi-

rival regional newspaper

In a sign of Mirror's grow-

ing confidence under John

Allwood, its new chief execu-

tive, the company is expect-

ing this week to receive

improved bids from both

Trinity and Regional Inde-

pendent Media, valuing the

company at more than

Trinity's initial offer of

0.37 per cent of a share for

every Mirror share had val-

ued Mirror at about 165p.

which was topped by RIM's

offer of 200p in February.

company bidders.

EMI. Thorn EMI's central research laboratory, which became Scipher, invented 1970s but was sold off because it was not a core. part of either Thorn or EMI.

Advent Limited, the venture capitalist, last month paid £5m for a 12 per cent stake that will fund Scipher for a year. Scipher had a negative cash flow of about £3m last year. The challenge for Scipher.

whose technologies include fingerprint security systems for access into buildings and software for 3-D sound in computer games, will be convince investors It made a pre-tax profit of £43,000 in the year to March

31 last year. It is expected to

increase turnover of £12.6m

Mirror is now thought to

analysts are recommending.

200p a share did not impress

the board," a commentator

said yesterday. "They will have to do a lot better."

being taken by Mirror is

expected to be reflected by

Mr Allwood when he pres-

ents full:year results on

Thursday. He is expected to

concentrate not on its recent

underperformance, but on

announce a shake-up of Mir-

ror's divisions and some dis-

nosals, with Sporting Life.

the racing title, and Live TV

seeming obvious targets.

He is also expected to

opportunities for growth.

The more bullish stance

"It is clear that an offer of

Mirror Group, the UK to the 230p-240p that some

this year, but profits will remain low because the company spends 20 per cent of turnover on research and

Trinity is expected to

It is thought that the

group will indicate a cash

and paper offer of between

200p-220p a share, subject to

approval by the Monopolies

improving its offer until

after the MMC inquiry is

completed in about three

months, as the passage of

time could affect Trinity's

share price and therefore the

value of its cash and paper

looking at making an indica-

tive offer in the region of

closed at 194p on Friday.

Mirror Group shares

220p-325p.

RIM is thought to be

RIM may try to hold off

and Mergers Commission.

announce its improved offer

early in the week.

Nerds transported to the third dime

Some technologies, like the Sensaura 3-D sound chip, are profitable. Scipher claims the product is used in 70 per cent of the 50m multi-

Kingfisher is examining

some of Co-operative Retail

Services out-of-town super-

stores with a view to buying them for its DfY store expan-

The UK retail group wants

to increase the number of its

B&Q Warehouses, as

opposed to the smaller

superstores, from 35 to 125.

It has earmarked £750m for

CRS is thought to be inter-

ested in selling its large

Homeworld stores, which are

in out-of-town locations and

could be converted easily

the five year project.

By Lucy Smy

CRS outlets

Others, such as miniature video displays for the next generation of laptop comput-BTG, the UK intellectual

media PCs sold each year.

Scipher, has had mixed fortunes since coming to the market in 1995. Investors have struggled to put a value on its portfolio of technologies, as it does not expect to be profitable for at least two years. It is valued at about £290m.

Scipher takes out patents on new inventions and oversees their development, but takes a more active role than BTG in developing its own technologies. Once products are launched, users pay royalties whenever they employ the technology

Although Kingfisher

would neither confirm nor

deny that it was in talks

with CRS, one analyst said yesterday: "You don't need

to be a genius to see that it would be a good fit."

The move to expand the

B&Q chain, announced in

October, shook the hard-

pressed DIY industry, which

in recent years had seen a

number of companies fall

victim to over-capacity and

price wars. In a trading

statement for the nine weeks

to January 2, B&Q increased total sales by 3.1 per cent.

Large property development recently emerged from bankruptcy. For being unfashionable that is bard to beat. ers, are still being developed and have yet to prove their commercial potential. With the first phase of the development now fully let, there is truth in this. For one thing, there is an earnings property manager, which is stream to value. Rents have firmed to £30-35 a square foot, partly with the expiry of cheap leases offered in the early 1990s. Canary Wharf has become a doughty competitor in the London office market. In each of the last three years, it

mooted £2.6bn top whack market value, investors thus need to value Canary Wharf's ongoing developments, land bank

the City office market. But bankers may not relocate east if Canary Wharf pushes prices up to the City's £45 a square Mirror awaits revised bids Kingfisher eyes

claw back trading in Swedish shares - particularly Ericsson from one type of retail use to

Against this background, it is welcome news that the London Stock Exchange is putting more flesh on the bones of its alliance with Frankfurt. Harmonising trading hours is a sensible step. Nonetheless, the leisurely pace at which the alliance is moving continues to prompt concern. It is significant that Sweden - Europe's only quoted exchange - is both quicker and more radical in its thinking than member-led

European stock markets

The idea of Stockholm's stock exchange moving its daily closing time from 5pm to 10pm may seem bizarre. But it shows the mounting pressure Europe's fragmented stock markets face from the US. The purpose of the move is to - that has been lost to New York.

NEWS DIGEST

PUBS AND HOTELS

Vaux sale committee reduced to three

Two non-executive directors of Vaux have stepped down from the sale committee overseeing the disposal of the UK group's two breweries. Their action is in response to criticism that there was a potential conflict of interest because of their strong company and family links.

Stephen Gibbs is married to the sister of the wife of Sir Paul Nicholson, non-executive chairman, while Anthony Wood is a former executive director. In addition it is understood that Sir Paul will not exercise his board vote over the proposed sale to a management buy-out team led by Frank Nicholson, his younger brother.

The sale committee now comprises just three non-executives - John Conlan, Jonathan Cartwright and Judy Atchison. It could today announce that the sale has been completed, but it is more likely to extend the exclusivity agreement granted to Frank Nicholson's team four weeks ago. David Blackwell

TELECOMMUNICATIONS

Remec bids £19.1m for Airtech

Remec, the US mobile telecommunications group, has made a £19.1m (\$30.6m) agreed bid for Airtech. The UK group will become the launchpad for the US group's expansion into Europe.

"The merger will assist us in selling our products in the US as Remec's products are technologically compatible with Airtech's," said Nick Randall, Airtech chairman. When Airtech announced an approach had been made

last month, its share price was 271/2p. Last Friday, after it was revealed Remec's offer would be valued at 41.9p, the shares rose to 381/2p, valuing the group at £17.5m, Investors holding more than half of Airtech's equity have agreed to the deal, including the Randall family which

holds 40 per cent. Remec offered a significant premium for Airtouch's total share capital and the deal will be settled through the issue of Remec shares. "But calling the deal a merger is beneficial from a tax point of view." Mr Randall said. "It was a condition set by Remec. I'm pretty confident the SEC will

ENGINEERING

allow it." Michelle Joubert

Sweet deal for UBS Capital

UBS Capital, the private equity division of the Swiss bank, has bought Aquarius Group, the world's leading maker of machinery for the production of lollipops and sugar

The Dutch company, which also makes specialist packaging machinery, is believed to have been sold for a considerable premium to its annual sales of about FI 50m

The deal is unusual because UBS has started to look for a chief executive, who will be offered equity participation, to run Aquarius only after completing the buy-out.

Republic of Ecuador PDI Bonds due 2015 or the sor months February 26, 199 to August 31, 1999, the mods will bear interest at 6°s per inum. August 31, 1999 will be a soluced interest Payment Date or such date, U.S. \$2, 20 of creat per U.S. \$1,50.97 face nterest per U.S. \$1,200.37 mag amount of Borxic will be psyable and U.S. \$13.38 of interest per U.S. \$15.997 laco amount will be capitalized. The sum of all capitalized amounts to and including August 31, 1999 is U.S. \$164.35 per U.S. \$1,000 lace

DE PARIS iuSti 158,000,000 « Ploating Rate Motes

U.S. \$250,000,000



Subordinated Floating Rate Notes Due 2001 Issued 10th February 1986

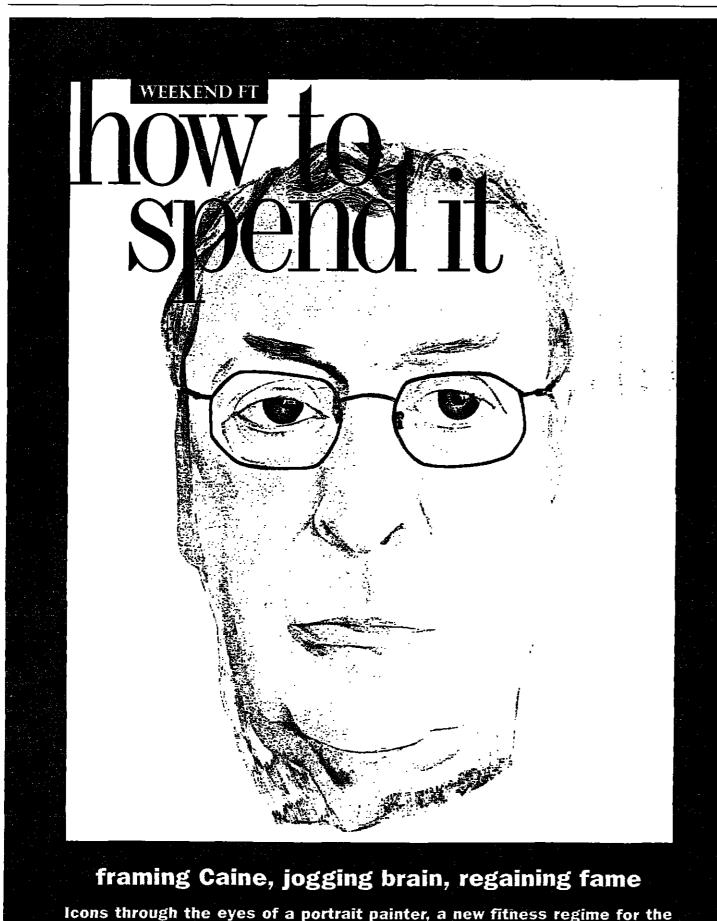
Interest Rate Interest Penod

5.125% per annum 26th February 1999 28th May 1999

Interest Amount per U.S. \$50,000 Note due 28th May 1999

U.S. \$647.74

Credit Suisse First Boston (Europe) Ltd.



brain and Yohji Yamamoto's second honeymoon with the fashion world.

All in how to spend it magazine, free with the Weekend FT this Saturday.

FINANCIAL TIMES

No FT, no comment.

MAM back in new trust issue move

By Jean Eaglesham

Mercury Asset Management hopes to raise £50m-£150m (\$80m-\$240m) for a new investment trust. The move marks the fund manager's first big new issue since it was forced to pull a heavily promoted launch in July 1997 due to lack of demand.

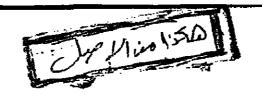
Conventional trust new ssues have been few and far between in the past two years. Investors have been reluctant to pay face value for assets when they can buy shares in existing trusts at wide discounts to net asset value. Managers have also struggled to cope with disenchantment with the sector on the part of institutional

MAM's tactics this time attempt to address these problems. Shares will be offered only to a group of in-house private clients, in contrast to the heavy pro-

motional effort used last It has been designed purely for retail investors. "I hope no institution buys it and I don't expect them to," said Lough Callahan, managing director of Mercury Investment Trusts. The investment mandate will be relatively risk averse, using

asset allocation techniques to try and generate a consis tently positive investment return, rather than a more aggressive benchmark. It will initially be offered

only to the 5.000 or so MAM clients and staff who hold 2307m of Merrill Lynch loan notes. MAM said some would want cash, rather than the trust, so it was hard to forecast how much it would raise. The minimum level is E30m. The launch closes on March 24 and is sponsored by Warburg Dillon Read.



of ottom.

MEDIA UK GROUP TO LINK WITH BERTELSMANN

Pearson in German joint venture plan

Pearson, the publisher of the Financial Times, and Gruner + Jahr, the German publishing group controlled by Bertelsmann, will today detail plans to launch a new German business newspaper competing with established titles such as Handelsblatt.

The German language paper will be edited and published separately from the Financial Times, although it will be printed on pink paper and will draw some articles from the FT's network of correspondents. The companies are expected jointly to invest about £60m (\$96m).

The launch marks an ambitious effort to capitalise on the growth of interest in financial markets in Germany, as well as the country's place at the heart of monetary union. A launch date has not been set, but the title is expected to break even in about three years.

Andrew Gowers, formerly deputy editor of the FT, is to edit the title as well as being one of two co-managing directors of the joint venture company. The other will be Michael Rzesnitzek of Gruner + Jahr, which is 75 per

cent owned by Bertelsmann. Gruner + Jahr is one of lishers in Germany, whose titles include Berliner Zeitung and Hamburger Morgenpost, as well as magazines such as Stern. It also 180,000 in the UK.

Gucci, the Italian fashion

starts legal proceedings

the Amsterdam Court of

global mailshot to explain its

equity, LVMH is asking the

Dutch court to freeze the

voting rights on an equiva-

lent number of new shares

issued 10 days ago by Gucci

to a newly created employee

LVMH is telling Gucci

investors it does not plan

any form of takeover and is

not intending to increase its

stake. It stresses that it

merely wants to enhance

shareholder value, and

points to margins of about

40 per cent on its Louis Vuit-

ton label compared with

margins of 25 per cent for

to start on Wednesday, the

day after Tom Ford, Gucci's

chief designer, is expected to

unveil his new women's

wear collection at Milan

The court case is expected

share option plan (ESOP).

argument.

growing financial magazine. The companies have not yet fixed a title for the newspaper, although Mr Gowers

moves to

strategy

and Nikki Tait in Chicago

Volvo, the Swedish auto-

motive group, has stepped

up plans for an ambitious

expansion in commercial

vehicles by offering an

almost 13 per cent of Scania,

has asked senior managers at the company to consider

an alliance in developing

common engine components.

gearboxes, drivelines and

At the same time, Volvo

executives in the US are

expected to renew talks this

week with Chicago-based

Navistar on the possible

acquisition of the group's

heavy truck and school bus

Although the two sides

have discussed an outright

bid from Volvo, they have

failed so far to agree a val-

uation and the Swedish

group is thought to be less

interested in Navistar's die

fuel systems.

operations.

twin-track

is now recruiting journalists. The Financial Times brand will appear prominently in the paper, and it will have an internet web site linked to FT.com, the FT's web site.

The Financial Times group already includes the financial newspapers Les Echos in France and Expansion in Spain, but has not had an equivalent in Germany. It decided on a joint venture with the German publisher both to gain from its local knowledge, and to share the financial risk.

The companies believe the market for financial information in Germany is expanding rapidly, and there is room for a paper that combines the authority of traditional German newspapers with the investigative and story-breaking culture of

German business magazines. However, the venture is likely to be seen as risky by some analysts because of the entrenched position of titles such as Handelsblatt and the financial pages of established newspapers.

The FT's international circulation has risen by about the biggest newspaper pub- 37 per cent in the past year, taking its total circulation to 384,000. However it sells only about 22,000 copies a day in Germany, compared with

man of LVMH, who already

ion houses, hopes to secure

an injunction to freeze the

meeting of Gucci's share-

LVMH exercised its right

as a 10 per cent-plus investor

to call for the meeting to

nominee director be

appointed to the Gucci

board. Unless LVMH wins

the Amsterdam case, its votes will be blocked by the

ESOP shares, and Gucci's independent shareholders

will decide whether to

endorse the nominee's

appointment. The date of the

meeting will be disclosed

holders later this month.

LVMH is also lobbying controls the Christian Dior

Having stealthily acquired voting rights on the shares 34.4 per cent of Gucci's before an extraordinary

Gucci shareholders with a and Christian Lacroix fash-

sel engine arm. This has big contracts with Ford, supplying V-8 engines for its pick-up trucks. There has already LVMH steps up heen speculation in the US that if Volvo did acquire Navistar, the diesel engine business might be taken Gucci campaign in-house by the US carmaker or the contracts reassigned. Navistar is understood to

have demanded more than LVMH is suing on the US\$50 a share, valuing the grounds that the share issue Chicago-based group well in excess of \$3bn. Last week, was an abuse of the spirit of The battle over the future of Dutch corporate law. Gucci, Navistar shares closed at which is trying to prevent just below \$40, having risen house, will intensify this the French group from exerstrongly in recent weeks. week when LVMH, the cising what it calls "creeping Last autumn, they were French luxury goods group, control" without mounting a trading at under \$20. The full bid for 100 per cent of its company yesterday continagainst the Gucci board in shares, insists it was lawful. ued to declined to comment Bernard Arnault, chair-

about talks with Volvo. Leif Johansson, Volvo chief executive, is likely to outline the group's commercial vehicle strategy at meetings in the US this week with institutional investors.

Mr Johansson will also be seeking support from investors for the sale of Volvo's car division to Ford of the US for SKr50bn (\$6.1bn) the subject of a shareholder vote on its proposal that a vote at an extraordinary meeting later this month.

Volvo, which has itself been at the centre of bid speculation in recent months, hopes to use proceeds from the disposal to fund an expansion in its heavy truck business, which currently boasts a 12 per cent market share in North America and almost 15 per

cent in Europe. Following its abortive Both groups have been tryapproach to Scania, Volvo ing to persuade Gucci's indehas told its Swedish rival pendent shareholders to support them. that the two companies could cut their future

Gucci is being advised by Morgan Stanley and LVMH is being advised by Goldman

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Farewell to the 'ladies' and 'hello' to big, fat profits

Dan Bilefsky looks at a revival in the fortunes of bingo as the industry launches its first £5m national advertising campaign

into my grave. The bingo hall is my second home."

industrial co-operation package to Scania, its Swedish heavy truck rival, while exploring possible bolt-on acquisitions from Navistar. Gala's bingo club - a 1930s the US truck and engine cinema modelled on a Venetian palace - in Tooting.

The twin-track strategy follows the collapse last in the National Bingo Game, month of talks between in which 600 clubs across the UK pool their prize money. Volvo and Investor, Scania's controlling shareholder and Eve thinks this might be the main vehicle for Sweher lucky night. She has den's Wallenberg industrial already spent £50 and it is empire, concerning a takealready 9pm, but she is unreover of the Scandinavian pentant: "Bingo is my night truckmaker. Volvo, which has acquired out on the town and it's important to me."

> A bingo revival is upon us. The game's core constituency - women between the ages of 35 and 55 - is increasing in number. Above all, bingo stands to benefit from recent advertising

To many, bingo is still redolent of old ladies and tea urns. But in April the National Bingo Game Association will try to wash away bingo's blue rinse image when it launches its first £5m national advertising campaign. The ads will feature drag comedian Lily Savage, and appear during epi-

With or without her, bingo is enjoying a high profile. Last week Paul Gascoigne, the football player, announced he was playing

sodes of Coronation Street.

ve Johnston, a 41-year- bingo with his mother to try renamed Cannons) have quit old single mother of five, to overcome his alcohol never misses her bingo problem. Celebrities at the night. "I will be playing recent Brit Awards for pop bingo until they lower me music played bingo after the ceremony.

There is a lot of money at It is Friday night in south stake. Gaming Board figures London, and more than 500 show a rise from 2906m people have crowded into spent on bingo in 1995 to more than £1bn (\$1.6bn) in 1998 - and that does not include money spent on machines and catering.

A study by Mintel, the market research group, shows total admissions running at about 100m a year, compared with 96m in 1996. Bineo has taken a ham-

mering during the past five years because of the advent of the National Lottery. Total admissions were

running at 109m in 1994 but fell 12 per cent by 1996. However. John Kelly, chief executive of Gala, Britain's largest operator of bingo clubs, is confident. He believes bingo is Britain's "new growth industry". Two factors particularly help the two largest operators, Gala and Mecca, which together account for about 60 per cent of admissions.

First, tough competition from the lottery has forced the pace of consolidation within the sector. Small operators of traditional clubs have found it hard to compete, and many have closed. In the past 18 months, many of the larger leisure

the business, leaving the field open.

هدا من الإميل

Their departure enabled Mr Kelly to take over Gala. When Bass decided to sell its bingo business in December 1997, he persuaded PPMV, the venture capital arm of Prudential, to back his £279m purchase of Gala.

Just six months later, the men from the Pru backed his There is £200,000 at stake admission, amusement acquisition of 17 Ritz clubs for £36m. Not only has the consolidation helped Mr Kelly expand his operation, it has improved business conditions too.

> r Kelly says: "It has helped stop the wars of attrition that used to occur. A town could have a big Mecca, a Gala and a Ritz all fighting for the same market, which reduced margins and destroyed our cus-

> > tomer base.' Second, the recent liberalisation of advertising laws should also benefit the largest operators most because they can promote their chain nationally. One analyst said: "Simple mathematics dictate that the larger the club, the larger the prize money, so big clubs such as Gala will be the winners.'

Certainly Gala has had a good start. In the 12 months to September 1998, like-forlike operating profits increased 22.3 per cent to £29.1m, while turnover grew 10.5 per cent to £168m. Spend groups such as Bass, First per head increased 6 per cent Leisure and Vardon (now from £6.56 to £6.93, while



increased 1 per cent. increase may not seem like much, but Mr Kelly says the structure of the business means that new admissions go straight to profit.

"The big plcs like Bass tended to focus on increasing profit margins. But from day one I thought the answer was to increase volume. We are a highly geared business, so that once you've covered your cost base, the money from each new admission drops straight to

the bottom line. Gala is also doing well against Mecca Bingo, its big- at your local bingo hall. gest rival, owned by Rank, whose interests span Butlin's, Odeon cinemas, bingo halls and the Hard Rock Cafe chain.

price nearly halve in the past 12 months. Its gambling arm, which includes Mecca bingo and Grosvenor casi-

like-for-like admissions year operating profits down 7 per cent at £53m. Mr Kelly A 1 per cent like-for-like says Gala's focus on bingo gives it an edge over the competition.

But it is also clear he would like to expand into other leisure areas for which additional capital could be raised on flotation. Following this positive

start, there is speculation that Gala could float in the next year, though Mr Kelly says there are no imminent plans to do so. For the moment his atten-

tion is firmly focused on dispelling the myth that you can still find "two fat ladies"

"Bingo is no longer about old women with a fag sticking out of their mouth and stockings down to their fun evening. For about a tenner you can have three walk away with sweaty

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euro around the world

Poor start to year for Colombian shares

By Adam Thomson in Bogota

taxes and asphyxiating interest rates have not provided the best of starts for Colombia's stock markets this

Since the beginning of January, Bogota's IBB Stock Market Index has fallen 20.5 per cent in dollar terms, and is now the region's third worst performer after Brazil and Venezuela. Last week, the index fell 5.1 per cent. Equity investors were edgy as fears mounted that an imminent Constitutional Court verdict might deem unconstitutional a government decision taken at the end of last year to declare an economic emergency.

Under the emergency - a constitutional clause that allows governments to implement extraordinary measures without consulting Congress - President Andres Pastrana's administration ushered in a 0.2 per cent tax on all banking transactions to prop up a precarious banking sector. The tax, though considered necessary to avoid further macroeconomic complications, will likely add to a range of problems affecting company performance this year.

High real interest rates through most of 1998 have plunged the economy headlong into recession, increasing unemployment and stunting internal demand. Last week the government's National Planning Department announced that gross domestic product growth last year was only 0.2 per cent, the lowest since 1942.

This year has started with a deplorable investment climate, a plethora of companies in very fragile positions and weak demand due to low incomes and high interest rates'

According to Armando Montenegro, president of the National Association of Financial Institutions (Anif), the poor performance is sure to persist in the first half of this year.

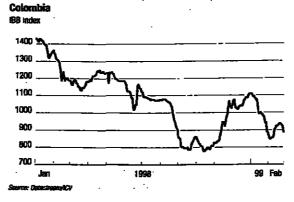
"This year has started with a deplorable investment climate, a plethora of companies in very fragile positions and weak demand due to low incomes and high

interest rates." he said. signs that rates are easing and will continue to fall.

Benchmark interest rates have come down approximately eight percentage since November, thanks largely to a more expansionary monetary policy by the country's central bank; a key decision by Moody's, the US credit rating agency, at the end of last year to maintain its Baa3 investment-grade rating on Colombia's sovereign bonds; and subsiding exchange rate pressure as fears of devalua tion dissolve on the back of approximately \$2bn of multilateral loans this

The fall in interest rates provides a degree of encouragement for the country's three stock markets. Benchmark rates now stand at 28.8 per cent given year-on-year inflation of 17.2 per cent. As a result, finance minister Juan Camilo Restrepo has already come good on the first part of his promise made last year to lower rates to 30 per cent by March and

to 27 per cent by June. Yet given last year's worse-than-expected growth. analysts are still not convinced that the lower inter-



haul the country back from recession in time to see significant economic recovery in the second half.

One of the main repercussions for companies is vastly reduced internal demand as Colombia's 38m residents spend less while unemployment rises.

Last year, unemployment was 15.9 per cent of the workforce, the worst figure since statistical methodology was standardised 23 years ago. This year, analysts warn, unemployment is set to reach 16.9 per cent.

Also, a new tax reform that has greatly expanded the base of VAT, affecting

est rates will be sufficient to advertising, airline tickets and processed foods, among others, is likely to dampen consumer demand still further. The Congressionally approved reform, past in December, forms part of the government's strategy to cut last year's fiscal deficit of 4 per cent of GDP to 2.2 per

> However, it is also likely to have serious repercussions for growth. Santander Investment in Bogota estimates that GDP growth this year will be a mere 0.9 per

cent this year.

Anif, which had originally estimated growth of 1 per cent in 1999, said that figure will now be closer to zero.

The depressing domestic scenario, together with the aggravation this year that lingering global financial instability may frustrate ing through the international capital markets. stands to kill off much investor interest in the Colombian

stock market. Analysts at Santander Investment say the IBB index will recover 18 per cent in dollar terms from now to the year-end, which is not enough to make up for the lost ground since January.

However, the overall poor erformance – market capi talisation is now a meagre \$6.6bn compared with almost double that at the beginning of last year - cannot be blamed on macroeconomic factors alone.

Many Colombian compa nies have simply failed to make the transition from family-run businesses to enterprises that maximise the returns for their share-

"Colombian companies are not like companies in the US, for example, where the importance of corporate governance is clearly understood," said a local stock market analyst.

Nokia aims to increase staff by 25%

Nokia, one of the world's largest mobile telecommunications groups, is planning to increase its workforce by up to 25 per cent this year as part of an aggressive recruitment drive in the software industry.

The strategy is expected to involve a rapid expansion of research and development into internet services and wireless imaging by the Finnish company, which competes head-on with Motorola of the US and Sweden's Ericsson for leadership of the mobile handsets and stems sector.

Senior executives believe the group should focus more "acquiring human capital", rather than pursuing large takeovers in telecoms and data communications.

The latest recruitment drive follows a rapid expansion of Nokia's workforce in recent years. Of the group's 45,000 employees, 26,000 have joined the company in the past three years.

"Nokia is increasingly ecoming a software company and that requires expertise, not just bolt-on deals," said one board direc-

As part of the expansion. Nokia has increased its R&D staffing to 13.000. Of that total, 60 per cent are now software engineers.

The company, which last year reported a 74 per cent increase in profits to FM14.6bn (€2.5bn, \$2.7bn), said the strategy would also involve further out-sourcing of assembly and component supply operations.

at the forefront of sourcing non-core activities elsewhere," said one executive We manufactured our last printed circuit board in

The move follows signs of slowing growth in traditional mobile telephone usage and intense price competition in the sector.

Nokia is predicting that data traffic on mobile systems - internet, electronic mail and fax activity will increase by 40-50 per cent this year, while growth in voice traffic is likely to remain flat.

Among young mobile phone users in Finland, which has the world's high est penetration of mobile communications, six out of 10 connections were by elec-

Since the start of this year, mobile telecoms penetration in Finland has overtaken fixed lines for the first time. reaching 56 per cent.

Globally, Nokia is forecast ing sales and profit growth of 25-35 per cent this year.

If achieved, that would lift its 1999 profits from FM18.25bn to FM19.7bn, on sales up from FM79.2bn to more than FM100bn.

Given the growth targets industry analysts had been expecting Nokia to pursue a large takeover. Such speculation was fuelled by the company's recent proposal to consolidate its separatelytraded A and K shares.

Senior officials, however said the group was more likely to seek small acquisitions while concentrating on rapid organic growth.

<u>त्राम् अञ्चलका</u> साध्यासम्बद्धाः । ५५४ कत्त्रा स्टब्स्

PARIBAS

Net income excluding minority interests: EUR 1,002 million 26% growth in net income, excluding minority interests and discontinued activities

In 1998, Paribas achieved growth in revenues of 19%. Net income, excluding minority interests, amounted to EUR 1,002m despite the effects of the financial crisis. The cost of risk in emerging countries resulted in a charge of EUR 387m. Total provisions stand at EUR 706m, representing an overall provisioning rate of 27% of outstandings in 5 sensitive Asian countries, of 100% of Russian outstandings and a general provision of EUR 195m for the

These figures do not include the provision for restructuring costs to be retained should plans to join forces with Société Générale proceed (EUR 400m, net of tax). Paribas' net income, excluding minority interests, of EUR 1,002m will be corrected automatically if Société Générale's public share exchange offer in France is a success.*

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Revenues, pretax in	ncome and	l ROE per	core busine	255			
In millions of curas	Specialized financial services	Asset management and Banking services	Corporate and investment banking	Proprietary investments	Real estate	Other	Total
Revenues ⁽¹⁾ 97/98	1.504 + 7%	1,013 + 25%	1,982 + 11%	687 + 24%	109 ÷ 59%	3 72 ÷15%	5,666 +19%
Pretax income excluding goodwill amortization 97/98	421 + 8%	181 ∻ 50©o	42 - 75%	659 + 25∜s	63 ÷ 153%	165 ns	1,531 + 31%
Pretax ROE	26% Legalty.	27%	1%	35%	9%	12%	16%

Tier 1 Capital Adequacy Ratio 9.2%

Net return

on equity of

12%

on an annual basi

Average

shareholders'

equity of

EUR 8.6 bn

Earnings per share **EUR 6.5**

dividend of **EUR 2.5** per share equal to growth of 17.1%, will be recommended at the Annual General Shareholders' meeting

to be held on

April 1st, 1999

A net

19% growth in revenues and 31% in pretax income for the 6 core business lines

Specialized financial services. With pretax income of EUR 421m (+ 8%), this core business shows a pretax return on equity (ROE) of 26%. The different business units continued their international extension and a large number of partnerships were signed. Loan production generated outside France now accounts for 27% of the total,

Asset management and Banking services. Pretax income enjoyed strong growth, reaching EUR 181m (+ 50%), equal to pretax ROE of 27%. Assets under management also grew significantly (+ 19%) from the combined effect of sustained inflows (+12%) and good market performance (+ 7%). Cardif, Cortal and Institutional and Private Asset Management all enjoyed excellent years. The Securities Services business also reported extremely strong growth.

Corporate and investment banking. Revenues (excluding the cost of risk on emerging countries) increased by 11%, despite the effects of the crisis in the financial markets, reaching EUR 1,982m due in particular to strong growth in customer revenues (+ 12%). Increased expenses (+ 21%) were linked to continued staff expansion (430 new employees) and investments required to adapt the Bank's computer systems to the euro and the year 2000. Revenues from capital market activities grew by 14%. The negative impact of EUR 387m, due to the financial

Proprietary investments. Pretax income for Proprietary investments increased by 25% principally through the growth in realized capital gains (EUR 597m. + 40%). Unrealized capital gains increased by 34% to reach EUR 3.1m for a total estimated portfolio value of EUR 6.5bn (+ 8%). This performance testifies to the recurrent nature of the income generated by Paribas Principal Investments.

Real estate. Pretax income amounts to EUR 63m (+ 153%), equal to a pretax ROE of 9%.

crisis in the emerging countries, is entirely carried by this core business line.

Other activities. Pretax income stands at EUR 165m, chiefly derived from capital gains generated in the financial portfolio.

n Paribas

Paribas Investor Relations 3, rue d'Antin. 75002 Paris - France - 33 1 42 98 66 35 - Internet : http://www.paribas.com

Lycos chief on the defensive over merger

Robert Davis, chief executive of Lycos, is fighting hard to defend the planned merger of his high-flying internet company with the less glamorous Home Shopping Network, the television shopping channel.

In a series of presentations last week, the first by Lycos since the announcement of the deal prompted a 20 per cent fall in its share price, Mr Davis argued that he was creating the first "next gen-

eration internet company". However, as he defends the deal, he sometimes gives the impression of having lost faith in the strengths of his the real world. own company.

At one point in a presentation on Friday, as he site and will point people enthused over the value of the "real assets" that HSN brought to the deal, be had to check himself and say this dles taking the order and did not mean he put less shipping goods. Yahoo! value on Lycos's virtual internet assets. But that was growth high-margin busiundoubtedly the impression

Lycos manages a collection of internet sites, includ- customers may stop using ing Lycos.com. Tripod.com its services and start going and Hotbot.com, which give directly to their favourite it an audience of about half of all internet users. The company is grouped with Yahoo!, Excite and America possible to prevent custom-Online as one of the internet portals - companies that guide users around the internet and offer a wide range of services from search to e-mail, news and chat.

Lycos has long had ambitions to be more than a portal. It wants to be an internet retailer. After all, why should it direct its audience towards an internet clothes shop, when it could sell clothes itself? Hence the merger, which will create USA Lycos by combining Lycos with two operations owned by USA Networks: Home Shopping Network and Ticketmaster Citysearch Online, the ticket agency.

Mr Davis says the deal will give Lycos access to the real ssets needed to become a large retailer - assets that none of its competitors have. HSN has the ability to handle 1m calls and ship up to 200,000 packages a day. It has revenues of \$1.5bn and, orders over the net rather unlike Lycos, it is profitable, than the phone.

Lycos's competitors are also wanting to get involved in retailing. There is general has ventured as far as Lycos - Lycos down.



Robert Davis: confident that

away from the web and into

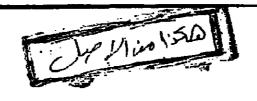
For example, Yahoo! will host internet retailers on its towards them in return for a fee. However, that is as far as it goes. The retailer hanremains focused on the highness of directing traffic

The risk is that Yahoo! retailers. Portals such as Yahoo! are trying to make their services as "sticky" as ers leaving, for example, by getting them to store their credit card information in one place on the portal site. Lycos has taken the ultimate step in making its service sticky by becoming the retailer.

The downside to this is that the company must now get involved in the grubby low-margin business of handling stock inventories and shipping products to customers. This is not the sort of activity in which Lycos's

shareholders want to invest. Mr Davis outlined many other positive aspects to the Lycos deal such as the opportunity to cross-market services on TV and the internet. He was particularly persuasive in pointing out how Lycos would bring new efficiencies to HSN, such as allowing it to officed unwanted stock through online auctions and to take

He said he was confident shareholders would approve the deal. If so, we will soon agreement that e-commerce. see whether Lycos will be not online advertising, is the able to lift HSN into the high richest vein of revenues on growth world of the internet the internet. However, none or whether HSN will drag



of London, including will be structured, and over

it should adont

delegation from the City

people from leading

banks and fund management

groups, recently visited

Frankfurt to check on prog-

ress in creating a new stock

market to trade the shares of

Europe's top 300 companies.

One topic addressed was

how the UK and Germany

returned to his desk con-

vinced the task facing the

two exchanges was "horren-

dous", so different are their

The issue is unavoidable.

bowever, and in the next few

days London and Frankfurt

are expected to cast some

light on how they will do so.

through is not immediately

expected, the fact that the

exchanges' alliance is ready

to go public on the issue rep-

It will, for a little while,

turn the spotlight away from

disagreements between them

over two other crucial issues

resents progress of a sort.

While a significant break-

stock market cultures.

ship of the proposed market

what family of equity indices

Given the fact that Frank.

furt is competing with Lon-

don on so many fronts to

become the financial capital

of the euro-zone, it is

remarkable that the two are

co-operating at all on a sin-

gle European stock market.

likely to be one of the guar-

antors of the long-term suc-

financial markets move at

such speed, the lack of head-

line making progress by Lon-

don and Frankfurt and the

mutability of their deadlines.

not to mention the secrecy

surrounding the venture,

have led some observers to

wonder privately whether

the project might not be

overtaken by a competing

vision of where Europe's

stock exchanges should be

It is, as one banker noted

last week, nine months since

the project was unveiled,

and there is still no sign of a

baby. "When are we going to

see some of the fruits of this

investment banks and fund

managers, who welcomed

the project initially - indeed,

In particular, the big

alliance?" he asked.

headed after the euro.

cess of the euro.

Nevertheless,

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This come or A TRAIN OF M-Craze Comme

. Lety 50 B. Balling **forest** - engine 20 th 2 **MARK** SERVICES **1** Open 12 10 Mata : 2 - . . . Marie State ####### **al** 43.55 1 - 11 WOOD DECK energy (L.) Anglesty Line (L.) A CONTRACTOR

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April - ---

Brazil plans return to debt markets

By John Barham in São Paulo

Brazil intends to issue international bonds or borrow from banks once talks with the International Monetary Fund are completed and "things have improved", said the acting president of the country's central bank.

Demosthenes Madureira Pinho Neto did not say how much the government hopes to raise but private sector economists say Brasilia has \$6.4bn in foreign debt service payments to make this year.

Felipe García, of New York consultancy IDEA, said the expect an announcement "maybe as soon as this week after the IMF programme as part of confidence-building measures and to set a market benchmark".

The central bank still has reserves of just under \$36bn and should receive further disbursements from the IMF and international lenders as part of their \$41.5bn rescue

However, the government is still expected to issue about \$4bn to \$5bn in debt this year to avoid running down its reserves and to establish a reference point for private sector borrowers.

Brazil has been absent from the international debt markets for almost a year, although other Latin American countries have been active recently. On February 18, Argentina raise \$1bn in 20-year bonds at a yield spread of 678 basis points over comparable US Trea-

sury bonds. Mr Garcia says Brazil would probably have to pay a spread of about 1,300 basis points to place bonds at the moment. Arguably, this cost would fall if international

BIDDER/INVESTOR

Swiss Life (Switz)

Securitas (Sweden)

Tyco international

Canandaigua (US)

Afilliams (UK)

Robert Bosch (Germany)

Endesa (Spain)

CROSS-BORDER M&A DEALS

TARGET

Enersis (Chile)

max.mobil (Austria).

Units of Glynwed (UK)

Units of Diageo (UK)

FBD Guardiorce (HK)

Lloyds Continental

Pinkerton (US)

Sidlaw (UK)

Zexel (Japan)

Listing on Easday Frankfurt and London put on a brave face for Israeli

ever since the Russian default last August.

short-term loans.

renewing these loans as they mature because the risk of lending to Brazil has increased substantially after the Real's 40 per cent devaluation in January.

A new sovereign loan would provide a reference point for banks, which would help them resume lending to private sector borrowers. However, analysts say even with a sovereign benchmark in place and assuming a willingness by international banks to lend. the high cost of funds would discourage all but a few bor-

rowers. Brazilian bankers report that their corporate clients are avoiding dollar debt, fearing this would establish an unjustifiably high benchmark that would make it harder for them to access international markets later when conditions were more

sentiment towards Brazil began recovering with the passage of final austerity measures in Congress, a satisfactory new agreement with the IMF and a positive reception in the markets for

Arminio Fraga Neto as the new central bank president. International banks have been clamouring for the Brazilian treasury to issue new debt to set a benchmark for private sector borrowers

Companies and banks account for about two-thirds of the country's \$228bn in gross external debt. This year alone they have \$13.81bn in principal and interest payments medium and long-term debt falling due. They must also repay a further \$16bn in

Foreign banks are not

favourable.

SECTOR

Telecoms

Security

Drinks

Engineering

Packaging

Security

Car components

group

technology group, is also planning to list on Easdag by the end of April, and the exchange has just admitted its first two Israeli members. makers for Israeli stocks.

of March depending on market conditions. ITIT, a family controlled

emas throughout Israel and claims a 45 per cent share of box office receipts. The company began opening multiplex cinemas in

outside its home market. Shk216m (\$53.4m) and net income of Shk22m in 1998, up from Shk180m and

about 25 per cent of its share

A price range is due to be and Israel.

By Vincent Boland Israel's largest cinema group plans to list its shares this month on Easdaq, the pan-European stock market for growth companies, and is to raise new capital to finance expansion in central Europe. IT International Theatres will be the first Israeli company to list on Easdao, and

would harmonise the rules that govern how shares are listed and traded on their its decision to choose a Eurorespective stock exchanges. pean listing - Nasdaq has This is a key issue in been the favoured exchange attempts by London and for Israeli companies - fol-Frankfurt to make their lows a sustained marketing plans for a pan-European drive in Israel by the Brusstock market a reality. els-based exchange. One of the delegation Supercom, an Israeli high

Koor Futures and Solid Capital, which will act as market-Nomura is global co-ordinator for the initial public offering of ITIT, which is due to be completed by the end

company set up in 1929. operates 92 screens in 21 cin-

Budapest in 1997 and now has 25 per cent of its screens It had revenues of

Shk16m in 1997. Under the terms of the IPO, FTTT is to issue 2.5m new shares, representing

set in early March, ahead of a series of presentations to investors in Europe, the US

COMMENT

Narrow failure

Majority move

Long-term buy

Sector milestone

Whiskies galore

Taking control

Critical mass

Non-life reshuffle

VALUE

\$1.45bn

\$368m

\$232m

\$186m

\$170m

\$120m

est \$1bn

holding up their grand might be said to have design for a European superbrought it about through exchange. Neither side their membership of both denies that they are at logexchanges - could soon begin agitating for a firmer gerheads over how owner-Alliances surge as fund | Henderson buys managers seek clients

By Jane Martinson, Investment Correspondent

A record number of fund managers launched crossborder joint ventures last year despite evidence that more than half fail within three years, according to a

Research by Cerulli Associates, the Boston-based consultants, found that the number of cross-border joint ventures between fund managers has exploded as companies seek to gain access to overseas clients. Almost three-quarters of more than ioint ventures formed since 1979 were launched in the past three years.

A record 29 cross-border launched last year. This rapid growth was largely fuelled by US and UK fund

About a third of the partner- profit for both sides. ships formed last year involved a Japanese distribu-

Such joint ventures typiasset manager gaining access to a domestic distrireport to be published today. bution network via a bank or large savings group. Arguments over the perceived failure of the local partner to market the new products was one of the main causes of failures within three years. Ben Phillips at Cerulli said

most ventures failed because both sides had different expectations of what could be achieved. Other reasons were companies being taken

The report found that only one joint venture - Wells managers wanting to link up Fargo Nikko Investment with Japanese companies as Advisors – ended with a sale

that market liberalises. to a third party that made a The push into overseas

markets has also spurred cross-border acquisitions of fund management comcally involve a US or UK panies by other financial services groups, such as Merrill Lynch, the US investment bank, buying Mercury Asset Management, the UK's largest pension fund manager. The wide-ranging report also concluded that invest-

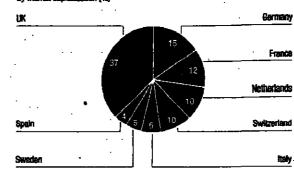
ment in the developed world outside the US will grow faster than the US market over the next four years. Growth will be particularly strong in the mutua

fund marketplace as individual investors in continental Europe save more for their Global Asset Gathering Strat-

Vol I, Crossegies, Border Business Development. Cost: \$8,000. Tel: 001 617 437 0084

Relative weighting of national stock exchanges By market capitalisation (%)

هكذا من الإمل



time-table so they can estimate and plan the costs and benefits involved in changing their internal systems to

Creating a pan-European stock exchange is showing progress, of sorts, writes Vincent Boland

Gavin Casey, chief executive of the London Stock Exchange, declined to comment specifically on the progress the alliance with Frankfurt has made.

is clear, however, that the issues of ownership and indices will require much more detailed discussion so they can be resolved by the second half of the year, when the second, "market convergence" phase of the project is due to fall into

Both the London and Frankfurt stock exchanges are currently member-

market's ownership is dominated by its big banks.

Deutsche Bank, Dresdner Bank and Commerzbank are understood to share a 25 per cent stake in Deutsche Borse, the operating company for Frankfurt's stock and futures markets.

Each is now tussling for a dominant share of the new project, based either on market capitalisation, which would make London dominant or on daily trading turnover, which would be more equal.

"Ownership will be determined on the basis of the value each exchange brings to the new market," said Mr Casey. That, in essence, is what they want to resolve.

The index question is equally complex - the two owned, although the German exchanges have relation- begun.

ships with different providers that they seem reluctant to give up. The LSE (with the Financial Times) owns FTSE International, owner of the FTSE Eurotop indices. Frankfurt has a joint venture with Dow Jones and the Paris Bourse for the DJ Stoxx set of pan-European

Fund managers say the index question is crucial because the nature of its constituents will determine where investment will flow in the future. One option understood to be under consideration is for the issue to be decided by the two exchanges separately from the super-exchange project. in consultation with the

leading index providers. Progress on the alliance is also being closely watched by the six European exchanges Brussels, Madrid, Milan, Paris and Zurich - granted observer status in the project. Mr Casey would not comment on claims that the six had been assured of full participation, but only if they accepted the ownership structure agreed by London and Frankfurt.

"That is the type of condition one accepts at the end of negotiations, not at the beginning," said one sceptical observer. The talking, it would appear, has only just

US portfolio

Property Correspondent

Henderson Investors, the UK-based fund management company, said it has agreed to buy the real estate portfolio of Phoenix Home Life, the mutual life insurer based in Hartford, Connecticut, in a move that gives it a significant presence in the the US direct real estate market.

Realty Advisors will more than double Henderson's core investments in a home real estate assets under manand creates one of the few property investors with an international presence.

"We think the US is an important real estate market in a global sense." said John Partridge, head of property at Henderson Investors. "It fills a big hole for us in our global real estate port-

folio," he added.

made the sale as a strategic decision no longer to invest in direct property assets, in line with other US insurance companies. In recent years, several leading insurers have sold their direct real estate holdings to diversify into more liquid real estate company shares.

Phoenix Home Life said if

Mr Partridge said Henderson is increasingly adopting The acquisition of Phoenix a US-style approach to prop erty investment, with only market exclusively in direct agement to £7.2bn (\$11.5bn) holdings. Secondary holdings are in real estate securities, largely outside the domestic market, while tertiary holdings are in venture capital-type investments in

"What we are doing is creating a number of target markets," Mr Partridge said. Terms of the sale were not

FT GUIDE TO WORLD CURRENCIES The table below gives the latest available rates of exchange (nounded) against four key currences on Friday, February 26, 1999 . In some cases the sale is normal. Market rates are the average of buying and selfing nates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

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1 March 1999

Midland Bank plc

£250,000,000 February 26, 1999 to May 28, interest rate of 5.60% p.a. On May 28, 1999 interest of £69.81 will be due per £5,000 Note and Note for Coupon No. 52. Global Agency and Trust Services Ceibank, N.A. London

NOTICE OF APPOINTMENT OF REPLACEMENT TRUSTEE

Carlsberg Finans A/S £200,000,000 7 per cent. Bonds due 2013

NOTICE IS HERERY GIVEN that pursuant to clause 2.1 of a Supplemental Trust Deed made on 9th September 1998 (the Supplemental Trust Deed) Carisberg Frams A/S (the Issuer) of £200,000,000 7 per cent. From Deed Carson Trust Post (the Notes) constrained by the trust deed dated 26th February 1998 (the Trust Deed) has appointed Citicory Trustee Company Limited (the Replacement Trustee) to act as Trustee of the Trust Deed in place of J.P. Morgan Trustee Ltd. (the Editing Trustee).

Pursuant to Clause 2.1 of the Supplemental Trust Deed, the Existing Trustee has duty given notice of its wish to retire in accordance with Clause 28 of the Trust Deed and was discharged as Trustee by the Issuer, in exercise of the power given to it in Clause 27 of the Trust Deed.

This Nodice is given pursuant to Clause 27 of the Trust Deed of the ppointment of the Replacement Trustee as Trustee under the Trust Deed.

baver: CARLSBERG FINANS A/S Çitibank, N.A.

CITIBANG

government bonds the bond market appears to have been lending a hand to federal reserve chairman alan greenspan

Treasuries respond to hints on tightening

Over the past six months. Alan Greenspan, chairman of the US Federal Reserve, has been trying to rein in the booming US economy. largely by talking down the equity market. But his words seem to have fallen on deaf ears, as stocks have continued to soar and as consumer spending - the engine of recent US growth has climbed to unprece-

dented heights. Now Mr Greenspan appears to be encouraging the US government bond ingly, governments around market to do the job of monetary tightening for him. US are the losing party, thus Treasury yields rose sharply Greenspan's Humphrey policies," said Jan Loeys, Hawkins testimony, in which he hinted at a possible reversal of last year's interest rate cuts.

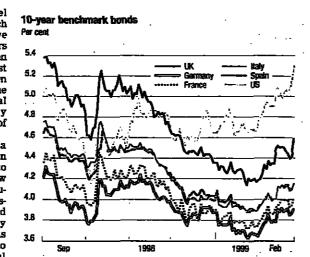
The sharp sell-off in Treasuries has led some observers to believe that this marked the end of the current low-yield environment. Yet these worries could prove to be over-done. To be sure. US long bond yields have followed a downward trend over the past 20 years. with every trough less deep and every peak less high than previous ones.

According to Michael Rosenberg, at Merrill Lynch in New York, there have at work: "Inflation has been trending down over the past 20 years, and there has been a huge improvement in the [US] government's fiscal position since the early 1990s, following 30 years of budget deficits," he said.

Others see that as part of a global trend. "Dealing in government bonds used to be fun because you knew ally screw up. But increasthe world have realised they committing themselves to last week in response to Mr sound monetary and fiscal managing director at J.P. Morgan in London.

He thought a "stability culture" had evolved, in which central bankers were given the tools and the political support to achieve their goal - keeping inflation at close to 2 per cent.

More recently, the US bond market has benefited from a host of internal as well as external factors. Last year's emerging markets crises, for example, were a blessing in disguise for the US, as the economy bene-



bond prices were also bene-

fiting from a "supply

squeeze", with the govern-

ment's budget surplus sub-

stantially reducing the pub-

lic refinancing requirement.

last year's benign external

forces appeared to have sub-

sided. "Emerging markets in

Asia seem to be in recovery

mood and world commodity

prices appear to have bot-

tomed out," said Mr Keating.

But he deemed the global

upswing "sufficiently soft".

Yet analysts agreed that

fited from cheaper imports and lower commodity prices. Domestically, structural factors have improved.

"Both labour and capital productivity had significantly improved at the end of last year; the natural rate of unemployment may be lower than previously assumed; and the nominal wage inflation has not gone beyond the productivity level," said Giles Keating, at Credit Suisse First Boston in London. He emphasised that

ble to neutral," he said. The rise in Japanese government bond yields has been another source of concern, as fears of a repatriation of Japanese funds from the US heightened. Many analysts have

remained rather sanguine.

as they expect Japanese investors to return at the beginning of the next fiscal year in April, but these analysts also conceded that it was not yet clear how the Japanese government would finance its growing budget deficit. Hence supply concerns and higher JGB yields may continue to haunt both the Japanese and the US bond market.

None the less, most market observers shared the view that US Treasury yields would not break out of their historical downward trend. "The recept sell-off is

nothing more than the market's anticipation of monetary tightening," said Mr Rosenberg. He added that the Fed funds future contract now implied a 20 basis point interest rate rise. Until then, he expected the US long bond yield to go as high as 5.75 per cent.

Negative expectations of only go one way.

moved from highly favoura- may thus continue to weigh other essential determinants of the US yield curve appear to be well in place.

Inflation as well as [bond] supply still look highly favourable," said William Dudley, chief US economist at Goldman Sachs in New York. He emphasised the market's immense confidence in the Federal Reserve being yet another reason behind the low inflation, low yield environment.

"For the time being, the bond market appears to lend Greenspan a helping hand in tightening monetary policy. Higher yields take the gloss off the stock market, push up mortgage rates, make corporate issuance more costly, and strengthen the dollar All of which delivers the necessary dampening effect," said Mr Keating.

However, most analysts expected Mr Greenspan to resort to an outright rise in interest rates later in the year, particularly if US retail sales remain strong. Friday's revised fourth-quarter gross domestic product figure showed a stunning 6.1 per cent growth. With statistics like that, interest rates can

NEWS DIGEST

ELECTRICAL EQUIPMENT

New Schneider chairman announces cuts of FFr2bn

Henri Lachmann marked his first public appearance as chairman of Schneider, the French electrical equipment maker, by announcing a FFr2bn (€305m, \$335m) cost-cutting programme aimed at lifting its operating margin by 2 percentage points within three years. The move came as the company announced a 22 per cent advance in annual profits while sounding a cautionary note on the outlook for

Net income for 1998 climbed to FFr2.68bn on sales of FFr50bn, against FFr2.2bn on sales of FFr47.4bn the previous year. Operating income rose 12.6 per cent to FFr5.6bn, with earnings per share up 17.5 per cent at FFr17.77. A net dividend of FFr7.54 a share, up 16 per

cent, is proposed. Mr Lachmann said planned cost cuts would concern "every department, division and country in the group" and were aimed at making the company more agile and proactive. The company said it had signed a preliminary agreement on selling its last property holdings and would focus on electrical activities. To mark this, it plans to change its name to Schneider Electric. David Owen, Paris

CASINOS

Genting profit drops 46%

Genting, operator of Malaysia's only casino, reported a 46 per cent drop in net profit to M\$414.3m (US\$109m) for the year to end-December. The group, which is also involved in the hotel and plantations businesses, has held its own better than many other Malaysian companies struggling through the Asian recession. Its revenues fell 11 per cent to M\$3.37bn. Sheila McNulty, Kuala Lumpur

ELECTRONICS

Oki Electric issues warning

Oki Electric, the Japanese manufacturer of terminals for automatic teller machines and other data processing equipment, has warned on profits for this year. Oki's downward revision of earnings followed close on the heels of recent reports of huge losses at other Japanese electronics manufacturers, including NEC, Toshiba and Mitsu-

It expects sales of Y685bn (\$5.8bn) against an earlier estimate of Y735bn for the year to March. Oki saw its pretax loss before exceptionals up from Y33bn to Y49bn. Alexandra Nusbaum, Tokyo

SECURITIES

Sanctuary to link with US group

Sanctuary Group, the UK media concern that manages Iron Malden, is to set up a joint venture with Global Entertainment Capital, the US investment bank that specialises in securitisation deals and arranged the \$30m Iron Maiden securitisation. The company will concentrate on bringing new securitised assets to the market. Senctuary will own 25 per cent of the venture, GEC 50 per cent and the rest will be held by outside investors. Khozem Merchant

OIL INDUSTRY

Elf falls in 'bad year'

Elf Aquitaine, the French oil company, has reported a near 37 per cent drop in annual profits in a result it said demonstrated its new capacity to resist an adverse economic climate. After a year described by Philippe Jaffré, chairman, as "a bad year for the oil and gas industry", the group posted consolidated net income of FFr3.54bn (€540m, \$593m), down from FFr5.6bn in 1997. The group posted a net operating loss of FFr844m from oil exploration and production. This included nearly FFr4bn of special items stemming partly from the depreciation of certain assets, notably in the Congo. Net operating profit from chemicals edged up to FFr2.64bn while profits from health rose strongly to FFr2.03bn. David Owen

CLEANING SERVICES

ISS plunges 53%

Denmark-based ISS, the world's largest cleaning services company, said on Friday last year's net profit had plunged by 53 per cent to DKr211m (\$31m). In 1997, one-off items had boosted net profit to DKr451m. Operating profit showed a 15 per cent advance to DKr735m. Clare MacCarthy, Copenhagen

CHEMICALS

Earnings warning from DSM

DSM, the Dutch chemicals group, has warned that tough conditions in key emerging markets would have a "substantial" impact on its first-quarter earnings. The company, presenting its 1998 results, said economic prospects for the current year were highly uncertain, and cited expectations of slower economic growth in Europe and the US as well as developments in south-east Asia, Japan, Russia and Latin America.

DSM said it "expects its results for the first quarter of 1999 to be substantially lower" than last time, owing to a poor showing by its polymers and industrial chemicals division. Last year, net profits rose 4.9 per cent to FI 914m (£415m, \$456m) on sales of Fl 14bn, an increase of 13 per cent. Jeremy Gray, Amsterdam

WATCHES

Swatch income rises 8%

Swatch, the world's biggest watch manufacturer, has shrugged off the drop in Asian demand for luxury watches and increased its 1998 net income by 8 per cent, to SFr357m (\$246m). Net sales rose 7 per cent, to SFr3.2bn. William Hall, Zurich

CONSTRUCTION

Skanska in sell-off plan

Skanska, Sweden's largest construction company, announced a strong rise in operating profits and said it was to sell its European building component operations as part of its strategy to concentrate on core construction activities. In the 12 months to December, the company reported an operating profit of SKr4.38bn (\$533m) on sales : of SKr63.94bn, up from SKr796m on sales of SKr49.58bn a year earlier. Pre-tax profits fell from SKr10.11bn to SKr4.83bn, with 1997 figures including a profit of about Skr9bn from the sale of its stake in Sandvik. Nicholas George, Stockholm

SOCIÉTÉ GÉNÉRALE GROUP 1998 results: 135th profitable year

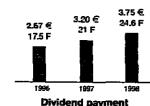
C The 1998 results, which were obtained in a difficult international climate, confirm the strength of the Group's fundamentals and the dynamic growth trend in Group profitability.

Daniel Bouton, Chairman and CEO

Net income of EUR 1.1 billion (FRF 7 billion), up 15.2%



11.2 ROE (Return on Equals)



The 1998 annual results of Société Générale are available on the internet: http://www.socgen.com

Gross operating income totalled EUR 2.4 billion, an increase of 12.5% compared with 1997.

Retail Banking: results and profitability grew strongly (ROE of 15%). In France, the Société Générale and Crédit du Nord networks continued implementing their active policy of developing their franchise, with 5 million individual customers, (+3% per year). Their share of the total market for deposits is 8.6%, a figure which is rising steadily. The Group has a strong presence outside France, with 1.3 million individual accounts held in 18 banks, following the recent acquisitions of Westpac in New Caledonia and the Romanian Development Bank.

Asset Management and Private Banking: net income rose by 40%, due to a strong growth in activity. Total assets under management have doubled over the last two years (EUR 150 billion at year-end 1998, of which EUR 26 billion in private banking), partly due to selective acquisitions (Yamaichi, Hambros).

Commercial and Investment Banking: within the Investment Banking division, the Equity and Advisory business line produced a remarkable performance, notably in Equity Derivatives, where the Group is a world leader. However, fixed income activities were affected by the financial crisis and Russian risk. The financing business recorded a strong performance in structured finance (project finance and leverage finance). In contrast, plain-vanilla commercial banking activities suffered from the impact of provisioning for Asian risk. The process of adjusting the international network is currently underway and the policy of reducing commitments was maintained.

Reinforced Risk Provisioning

Commitments on the five countries at risk in Asia (South Korea, Thailand, the Philippines, Malaysia, and Indonesia) were reduced by 36% and provisions were reinforced. With provisions of EUR 549 million booked in 1998, the risk coverage ratio on these countries rose from 10% to 27%.

Commitments on Russian counterparties, which amount to USD 341 million, were fully provisioned for.

The provisioning requirements for retail banking activities fell by 28%, due to a favourable economic environment and tighter risk control.

Growth in net income, return on equity and net earnings per share

Group net Income came out at EUR 1,073 million, up 15.2% compared with 1997, after recognising:

 Capital gains made on the industrial equity portfolio (EUR) 666 million, a rise of 29% against 1997).

- Capital gains generated by the disposal of subsidiaries which did not fit into the Group's core businesses (CiB, Allium and SG2), which amounted to EUR 176 million and were used to reinforce the prudential general reserve, with a total additional allocation of EUR 198 million.

- Provisions booked for restructuring costs relating to the international network and for the year 2000 (EUR 93 million).

Return on equity came out at 11.2%, up from 10.6% in 1997. Net earnings per share were EUR 10.73 (FRF 70.40). compared with EUR 9.67 (FRF 63.40) in 1997, a rise of 11%.

These figures do not take account of the provision for restructuring costs relating to the integration of Societé Générale and Paribas, which will be booked in the 1998 financial statements if the public share exchange offer made by Société Générale for Paribas shares is successful (EUR 398 million after tax). After recognising this provision, Group net income will come out at EUR 675 million.

Reinforced capital base

Total equity stood at EUR 11.8 billion, for a Tier-1 ratio of 6.54%, slightly above the level seen at December 31, 1997.

Dividend payment up 17%

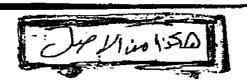
The dividend payment proposed to the Annual General Meeting will amount to EUR 3.75 per share (EUR 5.63 with the tax credit, or FRF 36.90), up 17% against the previous year.

This document is for information only; if does not constitute an offer of shares of Société Générale for sale in the United States of America, Canada, Australia or Japan, or an extension of the above-mentioned public exchange offer in

The shares of Société Générale to be issued pursuant to the public exchange offer have not been registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or the Securities and Exchange Law of Japan, as amended and, consequently, may not be offered or sold in the United States of America or Japan in the absence of such registration or an appropriate exemption therefrom.



For further information, please consult our investor Relations department in Pans on + 33 1 42 14 54 78







MARKETS WEEK

March 1 - March 7

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By Tracy Corrigan

The more bearish tone of the bond and stock markets appears set to continue. amid fears that the Federal Reserve is moving towards a tightening of policy.

Analysts expect the US long bond yield to trade in a 5.5 to 6 per cent range. following the market's recent weakness. The 30-year bond yield

ended the week at about 5.6 per cent, despite the market's slight recovery on Friday, compared with a low last October of 4.76 per cent. "Long-term Treasury benchmarks are struggling to find a new centre of gravity in a 5.5 to 6 per cent range," according to Salomon Smith Barney. "In part, this shift reflects diminishing expectations for a new round of global contagion and flight from

US economy maintains unexpected momentum? Analysts at ABN Amro predict the outlook for inflation will be a significant

risk. More importantly, the

Benchmark yield curve

4.45

Dow Jones Industrial Average

9300 19 22 23 24 25 26 Feb 1999

factor for the bond market in the coming months, but add that a spike is unlikely if import prices decline further and corporate cost constraints are maintained.

Among this week's data are personal incomes on with the rebound in retail Monday, which are expected to have risen 0.4 per cent in Later in the week, a broader picture of the

LONDON Benchmark yield curve

By Philip Coggan The Bank of England's monetary policy committee will hold the market's fate in its hands once again as it decides whether to alter UK interest rates.

February's minutes suggested the committee might push for further rate cuts but some analysts think that with the Budget close by and some pickup in recent economic data, the MPC will leave policy unchanged. Any waverers on the

committee may be influenced by the first statistic of the month - the purchasing managers' index of manufacturing activity, which has shown consistent weakness for the past year. Also released today will be consumer credit figures for January, which HSBC expects will show an increase to £1bn from December's £700m, in line

English China Clays.

FRANKFURT

--- 26/2/99 --- Moπth ago`

FTSE All-Share Index

19 22 23 24 25 26 Feb 1999

economy will come from the purchasing managers' services survey and the Confederation of British Industry distributive trades

survey. Companies reporting results this week include Rolls-Royce, United News & Media and Norwich Union.

By Tony Barber

Investors disappointed with the German stock market's off-colour performance so far this year are unlikely to have much to cheer about this week.

Apart from persistent worries that the US equity market is overvalued, there is a gathering consensus that a US interest rate rise is on its way. German share prices, sensitive as ever to

US developments, are bracing themselves for the inevitable damping effect. By contrast, few analysts expect the European Central Bank to cut euro-zone interest rates when its

governing council meets on Thursday. Domestic German factors are also playing their part in keeping a lid on the Dax 30 index of blue-chip stocks.

According to Landesbank Rheinland-Pfalz, investors are concerned about the negative impact on 1999 company earnings of the roughly 4 per cent wage increase won by engineering Benchmark yield curve

— 28/2/99 4.75 ---- Moπth ago 4.25 3.75 3.25 10 years 20

Dax index

19 22 23 24 25 26

workers in the IG Metall trade union.

However, economists are confident that German consumer spending will remain strong this year and exporters will benefit from the euro's weakness. providing firmer support for the Dax as the year progresses

TOKYO

By Paul Abrahams

The Tokyo equity market has stood up surprisingly well to a rolling barrage of profits warnings in the past fortnight from some of Japan's leading blue-chip

companies. It also seems to have been able to absorb large-scale selling of cross-

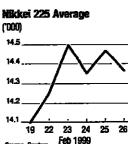
shareholdings by industrial and banking groups, and some extraordinary volatility in the yen-dollar market. The benchmark Nikkei 225 index ended last Friday at 14,367, up 269 points on the week. However, questions

remain whether the market has adequately priced the full scale of the profits downgrades that are likely to be announced in the weeks before the end of the financial year on March 31. It may also have

of unwinding of cross-shareholdings needed to cover operating losses. In addition, a number of stocks have jumped excessively on

underestimated the volume

Benchmark vield curve --- 28*/2/*99



restructuring

currency.

announcements, which be western standards appear inadequate to meet their companies' financial targets. The value of the Japaness currency will also be paramount, given the yen's sharp moves in both directions against the US

COMPANIES DIARY

Hays expected to benefit from the personnel touch

The spring reporting season This is at the top end of the vide investors with informaa higher-than-average rate of growth is support services. where Williams, Hays and Rentokil Initial publish

TODAY

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SHISS FRANCS

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Memili Lunciu & Co lec

SOUTH AFRICAN RAND

 Expectations for final figures from Burmah Castrol have fallen steadily during the past year. Investors strength and economic turmoil in east Asia, and later on the impact of a slowing in western economies. This has led to the shares underperforming by almost 25 per cent in the past three months. Williams de Broë

NEW INTERNATIONAL BOND ISSUES

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is in full swing, and will promarket range, which is from £230m-£255m. The broker tion on a whole gamut of also expects the company to sectors. One area providing release with the results details of its return of £250m to shareholders.

• Recent figures from Select Appointments showed continuing strength in the personnel consultancy industry and this is likely to appear in interim results from Hays. There will be much interest in any comments on prospects and the sustainability of its record of focused initially on sterling strong growth in the more difficult economic environment. Williams de Broë expects Hays to produce interim pre-tax figures ahead 26 per cent at £111m

 Specialist engineer Mayexpects the oils and chemi- flower is likely to take the

bus chassis maker. Merrill Lynch expects a pre-tax result of £40.8m, up from

TUESDAY

• The dynamics of the UK cigarette market will be a focus when Gallaher reports, and in particular if it has suffered from a trend towards cheaper cigarettes. First Call gives a consensus

 Pre-tax operating profit from Norwich Union, the insurance group, is expected by BT Alex Brown to be ahead 8 per cent at £700m. helped by a 10 per cent rise in life profits.

ers in Rentokil Initial is whether the company has regained its self-imposed target of 20 per cent earnings growth, which it narrowly missed at the interim stage. cals company to produce pre- opportunity of providing the While some brokers expect shareholders in Rolls-Royc tax profits of £242.4m' the first progress report on the target to be achieved at will be whether the zero-(\$388m), down from £279.7m last autumn's £269m cash the final stage, Henderson space and industrial power

> Ватомет

Hertic investment Benk

profits to £491m.

 Deflationary pressures on suppliers to the automotive industry are likely to have taken their toll on GKN, although this may have been offset by growth in its pallets business. A consensus of forecasts from IBES, the estifigure of £315.4m (£337m). mates service, suggests the company will produce an 11

 When Cookson, the specialist engineer, reports final figures, an important issue is likely to be whether the problem areas of steel and electronics are improving. The issue for sharehold-Merrill Lynch expects a fall from £179m to £145m.

per cent rise to £449m.

THURSDAY

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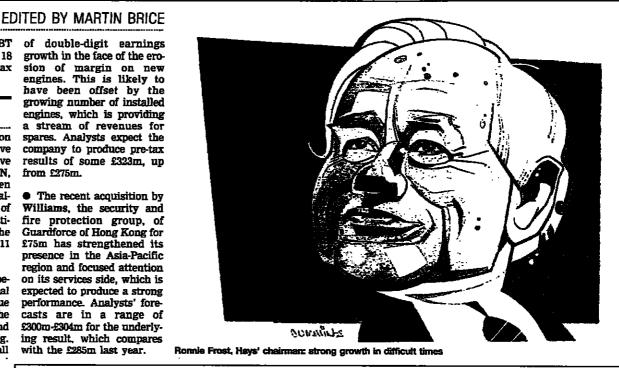
• An important issue for for the equivalent period, acquisition of Dennis, the Crosthwaite forecasts an 18 group has achieved its target

Paritas/Masturg DR CIBC/Tolgo-Milsabstu SG DG Rank

per cent earnings rise. BT of double-digit earnings Alex Brown expects an 18 growth in the face of the eroper cent advance in pre-tax sion of margin on new engines. This is likely to

have been offset by the growing number of installed WEDNESDAY engines, which is providing a stream of revenues for spares. Analysts expect the company to produce pre-tax results of some £323m, up from £275m. The recent acquisition by

Williams, the security and fire protection group, of Guardforce of Hong Kong for £75m has strengthened its presence in the Asia-Pacific region and focused attention on its services side, which is expected to produce a strong performance. Analysts' forecasts are in a range of £300m-£304m for the underlying result, which compares with the £285m last year.



UPM

SUMMONS TO THE ANNUAL GENERAL MEETING

The shareholders of UPM-Kyameoe Corporation are hereby summoned to the Company's Annual General Meeting to be held on Thesday, 23rd March 1999 at 3.00 p.m. at the Helsinki Fair Centre, address: Rautatieläisenkatu 3, Mana impact on the distribution of share ownership and voting power within the Entrance, F1N-00520 Helsinki. The names of the participants will be checked and the voting slips issued as from 2.00 p.m.

The following matters will be dealt with at the meeting: 1. The matters to be dealt with at the Annual General Meeting in accordance with Article 11 of the Company's Articles of Association.

2. The Board of Directors' proposal to reduce the share capital.

The contents of the proposal are as follows:

The aim of reducing the share capital is to invalidate the Company's own shares held by the Company.

The share capital of the Company, FIM 2,776,060,690, will be reduced by FIM 127,620,820.

FIM 127,620,820.

The share capital will be reduced by invalidating the Company's own shares held by the Company without payment.

The number of shares will be reduced by 12,762,082.

The invalidation will concern only the Company's own shares held by the The invalidation will concern only the company.

Company.

The purchase price of the shares will be deducted from the distributable shareholders equity. The restricted shareholders equity of the Company will not be reduced, since the nominal value of the invalidated shares will be transferred from the share capital into a premium find.

The reduction of the share capital will not affect the distribution of share ownership and voting power in the Company, since the shares to be invalidated are in the possession of the Company.

3. The Board of Directors proposal to convert the Company's shares into no par value shares, to redenominate the Company's share capital into the euro currency, and to amendArticle 3 of the Articles of Association to read as follows: "The minimum share capital of the Company shall be 250,000,000 euros The minimum share capital of the Company shall be 250,000,000 euros and its maximum share capital 1,000,000,000 euros, within the limits of which the share capital may be raised or lowered without amending these Articles of

Association.

The minimum number of the Company's shares shall be 150,000,000 and the maximum number of the shares 600,000,000, within which timits the number of shares may be increased or decreased without amending the share capital and the Articles of Association.

The Company's shares shall be included within the book-entry system for The right to receive monies distributed by the Company and the subscription right in conjunction with an increase of the Company's share capital shall be

1) persons who, at the record date, are entered as shareholders in the list of registered shareholders;
2) persons whose right to receive payment is, at the record date, entered into the book-entry account given in the list of registered shareholders and also entered separately in the list of registered shareholders; or if the share is registered in the mane of a nominee, the person in whose book-entry account the share is entered at the record date and whose nominee is entered in the list of registered shareholders as the nominee at the record date.

4. The Board of Directors' proposal that the Annual General Meeting decide to purchase the Company's own shares using distributable funds on the following

The Company's own shares shall be nurchased for use as payment when the Company acquires property pertaining to its business operations, and as payment in any possible corporate acquinitions and in eventual listing on foreign Stock Eachanges in the manner and to the extent decided by the Board of

No less than 200 shares and no more than 13,200,000 shares shall be pur-

chased.

The shares shall be purchased other than in proportion to existing shareholdings through public trading on the Helsinki Stock Exchange.

The shares shall be purchased at the market price quoted for them in public
trading at the moment of purchase. The purchase price of the shares shall be
paid to the sellers within the payment time specified in the rules of the Helsinki
Stock Exchange and Finnish Central Securities Depository Ltd.

The shares shall be purchased other than in proportion to existing shareholdings, since the Company's shares are publicly traded on the Helsinki Stock
Exchange and since it is intended that the shares will be purchased through
public trading.

The percuse of the shares will reduce the distributable unrestricted shareholders' equity of the Company. Since the maximum number of shares to be purchased will be less than 5% of

enpany: On 19th February, 1999 the total number of the Company's shares held by Un 19th February, 1999 the total number of the Company's shares held by shares held by the Company's shares held by shares not of a total number of 264,843,987 shares, representing 19,68% of the Company's share capital. Prior to the purchase of the Company's sware capital. Prior to the purchase of the Company's sware capital and total young rights conferred by the shares. Since it is intended that the own shares will be purchased through public trading on the Helsinth Stock Exchange without knowledge of the sellers, the insider's portion of the Company's share capital and voting power after the purchase of own shares cannot be predetermined.

The Board of Directors proposal that the Annual General Meeting author-ise the Board of Directors to decide on the disposal of the Company's own shares purchased on the basis of the aforementioned decision on the following condi-

The authorization is limited to a maximum of 13,200,000 of the Company's

The authorization is limited to a maximum of 13,200,000 of the Company's own shares.

The Board of Directors is authorized to decide to whom and in which order the own shares will be disposed of. The Board of Directors may decide on the disposal of own shares otherwise than in proportion to the existing pre-emptive right of shareholders to purchase the Company's own shares.

The shares shall be used as payment when the Company acquires property pertaining to its business activities and as payment in any possible corporate acquisitions and in eventual listing on foreign Stock Evchanges in the manner and to the extent decided by the Board of Directors.

The shares shall be disposed of at the market price quoted for them in public trading on the Helsinki Stock Exchange at the moment of their disposal.

This authorisation shall remain in effect for a period of one year from the date of the decision of the Annual General Meeting at which it was given.

Information
Copies of documents concerning the financial statements, the Board of Directors' proposals to convert the Company's shares into no par value shares, to redenominate the Company's share capital into the euro currency, to amend the Articles of Association, to redenot the share capital, to purchase the Company's own shares, and the proposal on the authorisation of the Board of Directors, as well as other documents required by the Companis Act may be inspected by the shareholders as of 15th March, 1999 at the Head Office of UPM-Kymmene Corporation (address given below). Copies of these documents will be sent to shareholders on request. Printed copies of the Company's Annual Report will be available as from the above mentioned date. The Report will be mailed to all shareholders registered in the list of the Company's shareholders maintained by Finnish Central Securities Depository Ltd.

Bight to attend the Meeting Shareholders who wish to attend the Annual General Meeting must be registered

Shareholders who wish to attend the Annual General Meeting must be registered in the list of the Company's shareholders maintained by Finnish Central Securities Depository Ltd. no later than 18th March, 1999.

Shareholders whose shares lave not been transferred into the book-entry securities system may also attend the Meeting provided that they were registered in the chareholders' list of Kymmene Corporation before 21st August 1992 or in the shareholders' list of Repola Ltd. before 28th February 1994, or that they have notified the Company and established their valid tatle and right to attend the Meeting. In this case the shareholders must present to the Meeting their share certificates or proof of their whereabouts, or other evidence that the title to the dares has not been transferred to a hook-entry account.

share certificates or proof of their whereabouts, or other evidence that the title to the shares has not been transferred to a book-entry account.

Shareholders wishing to attend the Annual General Meeting shall inform the Company thereof in writing no later than by Friday. 19th March, 1999 at 12 noon to: UPM-Eyumene Corporation, Share Register, Etelesphanadi 2, P.O. Box 580, FIN-00101 Helsinki, or by telephoning +358 (0)2041 50108 or +358 (0)2041 50109, or by faling +358 (0)2041 50333. Written notices of attendance must arrive before the date and time given above. Possible proxies shall be submitted to the Company in connection with the notice of attendance.

Bividend

The Board of Directors has decided to propose to the Amuzal General Meeting that a dividend of FIM 6.50 per share be paid for the year 1998. The dividend will be paid to shareholders who are registered in the list of shareholders maintained by Finnish Central Securities Depository Ltd. at the record date. In accordance with the decision of the Board of Directors, the record date for the dividend payment is 26th March, 1999. The Board of Directors proposes to the Annual General Meeting that the dividend be paid on 1st April, 1999.

Dividends payable to shareholders domicried abroad will be subject to tax at contrast.

Helsinki, 12th February, 1999 BOARD OF DIRECTORS

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STOCK INDICES

Feb 26 Feb 25 Feb 24 Feb 23 Feb 22 High Low High Low

Feb 26 Feb 25 Feb 24 Feb 23 Feb 22 High Low High Low 743.56 1240.53 1238.94 1227.12 1231.33 1517.11 1045.17 1517.11 31.14
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CURRENCIES & MONEY

Battle over policy

By Alan Beattie

The market this week will be on the alert for signs of monetary policy changes in the euro-zone and the US. The European Central Bank's governing council meets on Thursday with a very public battle over monetary policy continuing between Oskar Lafontaine, the German finance minister, and Wim Duisenberg, ECB president.

Some think Mr Lafontaine's rhetoric is counterproductive and merely increases the desire of the the time is right. Recent falls in the euro will also weigh on minds as a de facto monetary loosening that might remove the immediate need for lower interest rates. And with growth in the

peripheral euro-zone, including Ireland, Spain and Portucountries to consider when making its decision.

barely any fall in euro interest rates in the near future. markets may well mark the currency down sharply if the ECB defies expectations and cuts rates. The decision may well come after European and London markets have closed, towards the middle of the US session. In the US, February's non-

of labour market data, will be released on Friday, and will be eagerly awaited by a market keen to evaluate the next likely move in interest ECB not to be bounced into rates. Payrolls, which grew a rate cut before it considers strongly in January, are expected to continue that performance into February. Recent comments by Alan Greenspan, chairman of the Federal Reserve, have been seen by many as a soften-

farm payrolls, the key piece

rises in interest rates.

This would signal a move gal, well above that in Ger- away from concerns with and liquidity problems towards the continuing With the interest rate strength of the US economy.

ing-up of opinion for future

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1 5	42	42	4분	5;	5 <u>"</u>	-	4.50	
weekago	4%	4%	4	5	52	-	4.50	
Japan	N	2	ź	į	į,	-	0.50	
weekago	ż		į.	2	1	-	0.50	
S LIBOR BBA	Landon							
Interbank Fixing	_	46	5,	5%	53	-	_	
weekago	-	45	5	5,	52	-	-	
JS Dollar CDs	_	4.74	4.78	4.82	4.96	-	-	
weekago	-	4 74	4.78	4 82	4.96	-	-	
Euro Linked Ds	-	31	32	32	32	-	-	
weekago	_	34	33	32	3,	-	-	
OR Linked Ds	-	32	314	3 <u>1</u> 3 <u>1</u>	35	-	-	
weekago	_	32	31,	37	3,	-	_	
SBA Euro Libor	-	34	34	3.	31	-	-	
weekago	-	31	3:	3,	3,	-	-	
ero Euriber	-	3.120	3.098	3.055	3.071	-	-	
weekago	-	3.092	3 077	3.033	3.030	-	-	
EDNIA	3.11	-	-	-	-	-	-	
weekago	3 03	-	-	-	-	-	-	
URONIA	3.7089	-	-	-	-	-	_	
weekago	3 0187	_	-	-	_	-	-	

Feb 28	Shor term		days otice	One month	iliree months	Str months	Drae ytear
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PC	OUND IN N	EW YORK	FT SURDE to WORLD CURRENCIES
26 xi h	Close 1.6020 1.6011 1.6005 1.6035	Prev. close 1.6035 1 8027 1.6020 1.8065	The FT Guide to World Currencies table can be found on the Markets page in today's edition.

OTHER CURRENCIES	BANK RETURN
Feb 25	The Bank Return table can be found page 27 in today's edition.

TELEFONAKTIEBOLAGET LM ERICSSON (publ) NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at the Victoria Hall, The Stockholm Fair, at 5.00 p.m. on Tuesday March 23, 1999.

Shandwilders who would like to attend the Annual General Meeting shall give notice hereof to the Board of Directors, Telefonaldiebolaget LM Encason, Corporate Legal Affairs. S-126 25 Stockholm, or by c-mail holagestaemmo@hme.ericsson.se or by Tel no. +46 (0)8 719 3444 alternatively 719 4498, or by facsimale no. +46 (0)8 719 9527 between 10 000 a.m. and 4.00 p.m. not later than on March 18, 1999, When giving notice of attendance, please indicate name, date of burth, address, and telephone no. In order to facilitate the registration at the MEccing, powers of attorney, certificates of registration and other documents of authority should be sent to the Company at the address

Only those stratcholders, who have been entered in the transcription of the share register of March 12, 1999, kept by Vaerdepapperscentraten VPC AB (Swedish Securities Register Center) are entitled to participate in the Meeting upon notice of attendance. Shareholders, whose shares are registered in the name of a nominee, must temporarily be entered into the share register in order to be entitled to participate in the Meeting. The shareholder is requested to inform the nominee in due time before Friday, March 12, 1999,

The following items must be dealt with at the Meeting

- To elect the chairman of the Meeting.
- To set up and approve the list of voters. To approve the avenda of the Meeting.
- To consider whether the Meeting has been properly as
- 1) To present the Annual Report, the Auditors' Report, the Consolidated Accounts and the Auditors' Report on the Consolidated Accounts for 1998. h) The President's speech and the shareholders' questions to the Board of Directors and the Management.
- Approvals a) the Profit and Loss Statement and the Bulance Sheet, the Consolidated Profit and Loss Statement and the Consolidated Balance Sheet for the Group;
 b) to discharge the members of the Board of Directors and the Managing Director from liability;
 c) to determine the appropriation of the profits in accordance with the approved balance sheet and to fix the record day for payment of the dividend declared.
- To determine the number of members and deputy members of the Board of Directors and the number of Auditors and deputy Auditors.
- To determine the remineration payable to the Board of Directors and to the Auditors. 10. To elect members of the Board of Directors and deputy members.
- 11. The board of Eurectors' proposal for approval of amendments of the Articles of Association.
- 12. To clear Auditors and deputy Auditors.

The Bound of Directors proposes a dividend of SEK2.00 per share and Friday, March 26, 1999 as record day for payment of dividend. Provided this proposal is approved, the dividend is expected to be paid by Vaerdepapperscentrales VPC AB on Tuesday, April 6, 1999.

The Board of Directors' proposals to amendments of the Articles of Association are due to provisions in the Swedish Company Act that came into force on January 1, 1999. The

- the term of office of the auditors elected by the General Meeting is extended from one year to four years (§ 10);
- I new item is added regarding approval of the items on the agenda for the Annual Meeting (§ 12); the rate regarding open voting and voting by ballot is deleted (§ 13).
- the present rule regarding the period during which netice conversing the General Meeting is to be published is deleted and, the means for conversing the General Meeting is untended to announcement in Post-och limites. Editing at a well as in Digeos Nyheter and Svenska Dagbladet or another nation wide covering daily paper (§ 15); and a rule is inserted meaning that a shareholder must give notice of the number of possible advisors before the General Meeting (§ 16). upovals under items 8, 9, 10 and 12 on Board Members, Auditors etc.

Regarding remuneration to the Board of Directors and electron of the Board Members and Auditors, a group of owners of A and B shares who jointly represent more than 50% of the total number of votes of the Company has reported that they intend to vote for the following proposals:

- A total retrunctation to the Board of Directors of SEK 3,750,000 to be divided within the Board of Directors and that retrumentation to the Auditors shall be paid on Account Re-election of the members of the Board Meson. Tom Hedelius, Swerker Martin-Lof, Lars Eur Petersyon, Lais Ramqvist. Clas Reintenshold, Peter Sutherland, and Marcus Election of Mr Goran Lindahl as new member of the Board of Directors.
- Reselection of the Auditors Messes. Carl-Eric Bohlin, Olof Herolf and Tomas Thiel and the deputy Auditors Bo Hjalmarsson and Stefan Holmstrom. Electron of the deputy Auditor Ms. Jeanette Skoglund.

SOCIETE GENERALE USD 210 000 000 SUBORDINATED FLOATING RATE NOTES DUE 2002 ISIN CODE: XS0039179329 ISIN CODE: XS00.W179.29
For the period February 2n, 1999
to August 27, 1999
the new rate has been fixed at
5,125 % P.A.
Next payment date:
August 27, 1999
Coupon nr: 14
Announ:
USD 129.55 for the
denomination of USD 5 000
USD 2 590.97 for the
denomination of USD 100 000

USD 2 590,97 for the denomination of USD 100 000

THE PRINCIPAL PAYING AGENT SOCIETY GENERALE

[1-13] avenue Emile Reuter L-2420 LUNEMBOURG

Amelhyst Funding Corporation I USD 200,000 000 For the Interest period 1" March 1999 to 1" April 1999, the Notes will carry a Rate of Interest of 5.26344", per annum. The coupon Amount per USD 792763.63. Note will be USD 7593,13 - payable on 1º April 1979. The Principal Repayment Amo per original USD 1,000,000 Note is USD 16,639,67 on 1º March 1999.



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please telephone: Toby Finden-Crofts on +44 171 873 3456

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CRUS	5 K	ATES A	יט טו	HIVA	ilin s	<u>, </u>												
EXCHA	NGE	CROSS	RATI	ES		!												•
Feb	25	BFT	DKr	FFT	DM	ฮ	L	Я	NKr	뜮	Pta	SIG	SFr	£	C\$	<u> </u>	Y	£
Belgium*	(BFr)	100	18.43	16.26	4.848	1.952	4800	5.463	21.54	497.0	412.5	22.35	3.943	1.699	4.108	2.721	322.9	2.479
Denmark	(DKs)	54.26	10	6.823	2.631	1.059		2.964	11.69	269.7 305.6	223.8 253.7	12.13 13.74	2.140 2.425	0.922 1.045	2.229 2.526	1.477 1.674	175.2 198.6	1.345 1.525
France* Germany*	(PFr)	61.50 20.63	11.33 3.801	10 3.354	2.982 1	1,201	2952 990.0	3.360 1.127	13.25 4.443	303.0 102.5	203.7 85.07	4,609	0.813	0.350	0.847	0.561	66.59	0.511
retand*	(E2)	51.22	9,440	6.329	2.483	1.403	2459	2.798	11.03	254.6	211.3	11.45	2.020	0.870	2.104	1.394	165.4	1.270
ltaly*	ũ	2.083	0.384	0.339	0.101	0.041	100	0.114	0.449	10.35	8.593	0.465	0.082	0.035	0.086	0.057	6.727	0.052
Netherlands*	(Hi)	18.31	3.374	2.977	0.888	0.357			3.944	90.97	75.50	4.091	0.722	0.311	0.752	0.498	59.10	0.454
Norway	(IEKI)	45.42	B.555	7.548	2.251	0.905		2.536	10	230.7	191.5 82.99	10.37	1.830 0.793	0.789 0.342	1.907 0.827	1.263 0.548	149.9 64.97	1.351 0.499
Portugal* Spain*	(Es) (Pta)	20.12 24.24	3.708 4.468	3.272 3.942	0.976 1.175	0.393 0.473		1.099 1.324	4.335 5.223	100 120.5	100	4.497 5.418	0.956	0.342	0.996	0.660	78.28	0.601
Sweden	(SKI)	44.75	8.247	7.276	2.170	0.874		2.445	9.640	222.4	184.6	10	1.765	0.760	1.838	1.218	144.5	1.109
Switzerland	(SFr)	25.36	4.674	4.124	1.230	0.495		1.385	5.463	126.0	104.6	5.667	1	0.431	1.042	0.690	81.88	0.629
UK	ص	58.86	10.85	9.572	2.854	1.149	2825	3.216	12.68	292.5	242.8	13.16	2.321	1	2.418	1.602	190.1	1.459
Canada	(CS)	24.34	4.487	3.958	1 180	0.475	1168	1.330 2.007	5.244 7.917	121.0	100.4 151.6	5.440 6.212	0.960 1.449	0.414 0.624	1 1.510	0.662	78.60 118.7	0.603 0.911
USA Janan	(S) (Y)	36.75 30.97	6.773 5.708	5.975 5.036	1.782 1.502	0.717	1764 1487	1.692	6.672	182.6 153.9	127.7	6.921	1.221	0.526	1.272	0.843	100	0.768
Enta	ίŰ	40.34	7.435	6.560	1.956	0.788	1936	2.204	8.690	200.5	166.4	9.015	1.591	0.685	1.657	1.098	130.2	1
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		(CME) DN 12:			PE IV. DOG	A 74C,	res, Cacuta	. 118 819 78										
	Doen	Sett price	Chance	 Hiigh	Lo	_	Est.voi	Open Int.	= PH		HA SE E/S	OPTROMS:	E31,250 K	cents per	pownd)			
Mar	0.5648	0.5636	-0.0013	-		-	12,350	55,615	Strike		-	CAL	_	-		PÜ		_
-in	0.5886	0.5666	-0.0013			537	269	2,270	Price		Mar	Apr		May	Mar	A		May
Sep	0.5715	0.5698	-0,0012	-	0.56	593	2	167	1.590 1.600		1.82	26		3.19 2.64	0.62 0.97	1.4 1.5		1.96 2.41
w eenee m		TURES (CME) S	C- 10E 004	65-					1.610		1.29 0.87	2.1: 1.7:	-	2.04 2.22	0.97 1.45	2.4		2.89
										a Obsy's wol		••••	•		188 Pags 1,7			
léar 	0.6964	0.6922	-0.0040	0.694			16,861	54,468										
Jun Seo	0.7008	0.8967 0.7053	-0.0040 -0.0040		2 D.65 0.70		4,626 18	5,225 304	m PH	LADELP	BLA SE D-N	MARK/\$ OP	Trokes Dia	62,500 (S	per DNQ			
•	_			_	•	~~		W.4	Strike	-		CALL	s	-		PUT	TS	
III JAPANESE	YEN FU	TURES (CME)	Yen 12.5#	per Yen 7	100			_	Price		Mer	Apr	•	May	Mar	Ap	r	May
	Open	Self orica	Change	High	io	w	Est.vol	Open int.	0.560		0.61	0.99		1.21	0.20	0.5		0.68
Mar	0.6368	0.8416	+0.0041	0.845			35,467	80.516	0.565		0.34	0.7		0.94	0.43	0.7		0.91
Juan	0.8420	0.8519	+0.0042				1,097	6,572	0.570		0.19 _ (2000 - Pade	0.50 Prov. da		0.71	0.75	1.0	D .	1.19
Sep	0.8650	0.8627	+0.0044	0.8850	0.88	550	15	1,532	Pignog) mot a 44r		1 · 1181, 90	d & Obber ner		196 1,109			
STERLING	FUTURE	S (CME) 982.50	00 per E						BE	ICHN	IARK	GOVE	RNME	NT E	CONDS	:		
Mer	1.8020	1,6012	-0.0022	1,6060	0 1.59	SCE	7.372	67,021			Red		66d	Bid	Day chg	Wik chg	Month	Year
Jun	1.6030	1.6002	-0.0024	1.6050			449	2,535	Feb 25	i .	Date	Coupor	Price	Yleld	yleki	y tedd	etng yid	etg yld
Sep	1.6020	1.9002	-0.0026	1.6020	1.60	120	260	230	Austral	b	01A01 08A08					+0.10 +0.17		-0 13 -0.33
•															• ••••			
-									/augirle		03/01	5.250 5.000				+0.23 +0.13	+0.25	-0.82 -0.87
1117 151	TEDE	OT DA-							Rolphos		03/01	5,000						
UK IN	TEKE	ST RAT	IES .						OMPHE		03/09		96.210			+0.27 +0.12	+0.25 +0.36	-0.84 -0.77
									Canada		12/00	5 900				+0.24	40.55	+0.22
LONDON	V MC	oney r	ATES						CORRE	•	06/08	6090				+0.21	+0.48	-0.09
Feb 26		Over-	7 days	Cna	Then		Six	One	Denma	*	11/00	9,000	100,650			+0.16		-0.51
		night	notice	month	I ISON		months	year	Darren		12/08	8.000	113.040			+0.10	+0.47	-0.79
Interbank Sterlie		7% - 6%	6 - 54	5% - 5	C 51+-	54. 5	# - 5#	5 <u>E</u> - 5 <u>4</u>	Roland		06/00	4,000	101.180		5 +0.03	+0.05	+0 13	-161
Sterring (2)s	7			5% - 5			2 - 54	5% - 51			04/09	5 000				+0.14	+0.39	-0.58
Treasony Bills		-	-	5⊉ - 5,	5 5 ·	52			France		07/00	4,000				-107	+0.18	-0.86
Bank Bans				SQ - 5	§ 54 -						04/06	7.250	121.5600			+0.17	+0.37	-0.91
Loçai exhority Discount Market		5% - 5% 5% - 5å	53 - 52 54 - 58	5 [- 5]	51 -	58 5	샾 - 5높	51 - 54			04/09	4.900	99,2500	0 4.0	+0.04	+0,14	+0.40	-0.85
value mi lit	, ucho	37 - 3 <u>ĕ</u>	34 - 35	-			-	•			04/29	5.500	108.2800	0 49	+0.04	+0.12	+0.38	-0.53
UK clearlog ban	ik base i	endag ratu 5%	per cent	inyon Feb 4	i, 1999				German	y	05/01	5.000	103.8306			+0.20	+0.27	-065
,			Up to 1	1-3	34	6	6-9	9-12			01/06	6.000	1124900			+0.22	+0.42	-0.82
			month.	month			months.	months			01/09 07/28	3 750 4 750	97 7900 98 6800	•		+0.12		-0.89
Cents of Tax	den 🖭	nn con	4	6.5	6.5	<u></u>	6.25	6.25								+0.14		-0.53
Cents of Tax deci.						•	لنكدل	uzj	Creace		03/00 01/08	9 800 6,300	100.2500 101.8000			-0.16	-0.45	-571
Ane. (sender rate) (of discount	r on Feb 19. 5.01	124pc: BC60	freed rate S	ag Export i	Finance. I	Make up de	Feb 26,	<u> </u>							-0.15	-0.13	-4.85
7999 Agreed rate 30, 1989 to Feb 2	e for pario	d Mar 24, 1999 :	5e Apr 33,1	190, Schwere	6 8 6.80 pc	Referenc	ze rate lor p	erico Jen	refered		10/01 08/08	6.500 6.000	107 9300 113 8500			+0.12	+0.25	-1.49
ov' (600 m ton)	cn' 1202.				MOC MAC	andr 10.					00/05	0.000	13.6300	, 4.75	+4,,07	+9 10	+0.34	-0.98

5.0739% 5.0137% 5.0458% 5.0134%

Harway

BANK OF ENGLAND TREASURY BILL TENDER

BASE LENDING RATES

Royal Bit of Scotland 5.50 Scottish Widows Bank 5.50

@Robert Flerring & Co5 50 Sun Bank Habib Bank AG Zurich 5.50 TSB

Heritable & Gen Inv Bit. 5:50 United Bank of Kawatt. 5:50 C. Houre & Co 5:50 Unity Trust Bank Pic 5:50

GSG Hambros Bank & Trust Whitenway Laidlew 5.50

Feb 26 Feb 19

Bank of Cyprus Bank of Instand

Bank of Scotland

Citibers NA

Brit Bk of Mid East 5.50

The Co-operative Bank5.50

5.50 5.50

5.50

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5.50

4.500 102.7600 3.25 +0.05 +0.15

3.57 +0.06 +0.11 +0.20 -1.30 4.18 +0.06 +0.09 +0.32 -1.08 5.12 +0.04 +0.10 +0.34 -0.67

6,900 171,7400 0.33 - +0.03 -0.25 -0.29 4100 113,9080 172 - +0.09 -0.18 -0.14 1800 98,3110 1.88 -0.02 +0.12 +0.07 +0.18 2,700 92,7800 2,78 -0.04 +0.11 +0.15 +0.25

9 000 110 4400 1.14 +0.05 +0.17 +0.24 -0.78 3 750 98,9000 4.12 +0.02 +0.13 +0.37 -0.76

8 000 105 1848 5.13 +0.03 +0.18 +0.08 -2.51 7 000 108,7584 5.88 +0.09 +0.27 +6.32 -1.03

7.000 184,0000 5.65 +0.05 +0.20 -0.07 +0.79 5.500 104 3000 4.95 +0.12 +0.19 +0.15 -0.28

5.375 102.4200 3.00 -0.03 +0.07 +0.04 -1.03 5.375 108.8300 4.21 +0.06 +0.13 +0.35 -0.92

19.250 107.7564 3.34 +0.06 +0.11 +0.12 -1.29 6.500 115.7160 4.38 +0.11 +6.18 +0.44 -1.00

4 500 103 9400 1.33 -0.01 -0.05 -0.08 +0.01 4.250 116 0000 2.23 +0.01 -0.07 -0.04 -0.52

487 +006 +013 +0.27 -1.84 464 +0.06 +0.13 +0.44 -1.52 454 +0.03 +0.07 +0.35 -1.50 450 +0.04 +0.12 +0.31 -1.48

01/01 5 000 103 4800 3 09 +0.05 +0.05 +0.17 -1.11 07:08 5 150 105 4700 4 48 +0.05 +0.41 +0.66 -0.62

4 500 98 8418 514 -0.02 +0.15 +0.46 4 750 98 9000 5.21 -0.02 +0.13 +0.58 4 750 96,0000 5.28 -0.03 +0.10 +0.51 5.250 95 4688 5.56 -0.05 - +0.34

4500 103.7200 4500 102.5800 6.500 120.5800

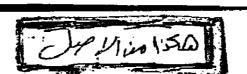
7.000 105.2800 6.500 107.8800 5.750 110.1700 6.000 124.4900

07/09

11/01 12/03 12/09 12/28

London mid-day " New York cloging, Yester Lacal market standard/knowled cont payable by noweestherits

UK GII	TS		_					•					11-12-5	vii.		til og det Farstige					
	Notes	Price S		Amni Em	iripreși Alia	(28) 4	Cley	Not	ts Pricaí	**	Amri En	interest tibe		City time	Motes	Price £		Ameri Em	interest due	 	Ç
borts" (Lives a; 1925 Filip Rate 19				c 200 f	Maria Seûe	- 11	m#	Each 1012pc 2005 _							Index-Liebed (b)						
دا السام المارية المار 1995 مارية المارية الم					Se26 M/28			Treas 121 ₂ pc 2003-5 _	_ 132 5895	-5	2,200	My21 My21	1211	1295	21 ₂ pc '99	195 3147			Marco Notice	12.1	
as 10 ¹ >ac 199					19 My 19			Trees 81 ₂ pc 2005	121.9054	-6	10.373	Je7 De7	30 1 t	4946	21gpc 101 (78 3)	302 B467	_	2 150	MARIE MARIE	45.0	
sa 6pt 1999		100 404	-1	6,950	Fe10 Auto	12	3635	Com 94pc 2005				Ab 15 Hv15			2120C 03178 @	201 5200	-:	2,130	ME 24 SE24		
19⊈ 19⊈ 1995		103.6872	-1	1,796 (M22 M22	1211	1242	îreas 7140¢ 2008	. I I B B 164 mi	-7	4 600	Mara Sea	79.7	*200	Abor 7M care	TOO COME		27001	MYZV IMZ	171,11	13
								Treas 8pc 2002-6.	T09.8558	-5	2.090	Ans Des	24.0	1724	47 ₈ pc 194 (135 6)	132002	-3	1,300 /	Ap21 0c21	[9.10	12
								Treas 71 ₂₀₀ , 2006	F17 B928	-7	11 700	107 Pa7	20.11	1120	200.06	233 /600	-2	2,500	وابل واحل	111	13
								Treas 11 laps 2003-7	178.4654		3 105	LT LT	***	1146	21200109 (78.8)	274,3500	- 1	1825	My20 My20	11 11	13
								Treats 812pc 2007	174000		7307	been and	10 1	123	21 ₇ 00 '11	7.3334	-1	J.100	Fe23 Au23	152	13
								Treas 7 upc 2007	119 3060		11000	76107410	-111	1339	21 ₂ pc 13 (89 2)	191 7500	0.2	4.200	Fe16 Au16	8.2	13
885 5 ¹ 20° 3000	_4	103 0536	-2	109 .	P58 T58	251	_	Treas 13 ¹ 29¢ 2004–9	. 1702030 . 150 9760	0		J87 U87	3011	3504	5,5bc .16 181 Pl	2118100		4125	535 MW	18 1	13
aw 9pc 2000)	- <u></u> - 10	13.88254	-2	5,358	5e3 Mr3	722		Toron Gree 2000	2 139.2450		- 35	A 100	217	-	2°20×20 (830)	211263		3.800	Bate Orlé	7 10	13
eas 13pc 2000 .					1514 JY14		139	Treats 9pt 2008	- 1376181	-11	5,621	Api3 Uci3	210	1113							
as Spc 2000					Je7 Pe7		1945	17635 HDC 2009	. 1229 15000	-1.1	1,450	W22 Se25	169	1116	4 (97 7) 4 (135 1)	162 6633	_	1.650	A16 A77	18 7	11
as Fig Hate 20				3,000 8	ولتواطأتنا	5 10									•			000	94:0 Sirr	-4.	•
58 10pc 2001 Pr 91 ₂ 9c 2001			-3 -3	440	MIZJVIZ	41	12750	14 629 64-ps. 2 010	. 1147141	-12	4,750	Myza Hv. S	16.11	163.							
er 9 lanc 2001 .					10 Ap 10		-	Conv 9pc Ln 2011	. 140 3906	-11	5,270	Jy12 .b12	41	1245							
es 7pc 2001 .					My6 My6		3031	Treas 9pc 2012	142,4372	-12	5,360	FOG AUG	31	1701	b) Figures in parenthe						٠.
b 12pc 1899-3					1 /22 Ju22		-	Treas 512pc 2006-12 _	. 108,3400	-10	1.030	Mr IQ Salio	19	1330	months prior to issue months prior to issue	والقروب	- 10	bose	for ince	wild.	Œ
n 10pc 2002			-4		C11 April		-	Tress Spc 2013	134 6770	-I 1	6,100	M27 Se27	179	2229	mobasing of RPI to 10	On Feb	nave have	Deen .	actualed	10 R	_
es 7pc 2002					De7 Je7		-	Trees 7 Last 2012-15 .	128 9180	-1 i	600	M26 Ja26	28 1	1232	3.945. RPI for June 19	98 163	4	be la	MISSI 196	30 IS	3
# 9 ¹ 200 2002 .			-4		Maid Je14	112						•						~			_
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es Boc 2003		112.5369	-6	8,900 J	e10 De10	1 12 3	2010	PROBE BASIC 2017	150,1769	-12	7,550	4.3 An.3	15.7	1982				_			
as 10pc 2003							1287	Each 12pc 2013-17 (179-4025	-9	57.	lef2 (le12	312	-	Motes	Proce €	V4 %		Interest	ᄪ	
ss 13 kpt 2000	F3.¥	111 5597	-3	53 J	15 N2	18 1	-	Treas 8pc 2021	146.6995	-141	6,500	.le7 De7	30 II	-			+!-	244	dut	- 16	_:
								Tanas Opc 2028	124,8024	-1,8	5 000	9e7 Je7 ∵	30.11	_	Access Dev 10 laps 2009_	139}}	0.7	100 6	424 924	397	
to Rifteen Yes	_							w							Present 111 ₂₀₀ 2012	158		45 6	715 M15	1210	18
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es 6 lypc 2003 es 11Jans 2001		17416		1,907	201 (391 - 3 210 Mars	14 A	-	Consols 4pc	67,7000	-36	350	Auf Fc1	31				-1.3		Apjiuti Apjiūti		•••
s 10nc 2004		124 7973	-3	21 8	VIG My 15	411	14790	Mar Louis 40	. ,40,00	-63	1.37		17 II	1360	1 (Yr 7 may 1990 may	574 gi					
19 عوراً ding ا		96 1815			h14.714		1774	COM SINGLE AN WETTER	. 65.0700	-22	115	April Oct	229	1243	Manchesier I I lane 7007				MacJeSaDa		_
9 ¹ 295 2004		21527			303			Ties: 3pc 154 All											o25 Oc25		
25 6 kpc 2004 .		170.7586	-5	6,500 M	N28 MV26 I	711	Бű	Committe 2 lype	53,5500	-1.1						97 nj		25	Mrt Sel	12	3.3
	-	25 8241	-8	4 442 0	EIR Ants	814	147	Tieses 212pc	\$1 00m	-15	475	And the c	20.0	اللفة	Complete (1922 1921) 44 open (1922) Complete of their Western particular of their Western particular of their particular o	1843	-1.2	60.3	H30 J(30	29.12	
w91 ₂ 60 2005 .				7,076.0																	



EQUITIES

MARCH

Weak euro pushes rate cuts off agenda

EUROPEAN OVERVIEW

By Vincent Boland

interest rate is unlikely to be especially if the US Federal base rate in the euro zone to Benson's portfolio strategy top of the agenda when the Reserve is forced to raise 2.5 per cent, probably by the team argue that if the cur-European Central Bank interest rates to cut the level second half of the year - are rency remains weak and meets this week to discuss of economic growth there. essentially based on the original short rates do not fall, the monetary policy, but the which came in at an exuber- inal view that the euro effect should add 0.1 per cent weakness of the euro ant 6.1 per cent in the fourth would be stronger than it to the bank's 1999 estimates undoubtedly will come up quarter of 1998. for discussion.

lar for much of last week and is now below \$1.10. Some observers argue that it

Analysts say the euro's

mild falls against the US dol- ther cuts in European inter- French and German finance A cut in the euro-zone's is headed for \$1.00 this year. haps 50 basis points in the

currently is. The currency continued its weakness rules out any furbeing demanded by the 2000. So the interest rate cut euro-zone, and 0.6 per cent in

FISE Actuaries Share Indices

Potter chronism is arrived in resp. Term lines and in PTEF international (material 1989). As optics reserved PTEF and Facility for imposers these costs of the London Dook Euthange and the Prescript Rook and are used by PTEF harmonism, control professionally as a registered took need by the Arrangement Stack Euthange, PTEF Euthange and

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of economic growth in the

est rates for the moment, ministers may not be forth- and 4 per cent to corporate indeed, those cuts that have coming yet. But is a weak earnings growth in those been forecast - a drop of per- euro entirely a negative years, respectively. "Not enough to bail out the analysts [who are bearish on enough to support a possible change in market sentiment," the team says.

So far there have been relatively few earnings shocks from 1998 among the big European companies, although bank results have been severely hit by the turmoil in emerging markets. For 1999, the Dresdner team is forecasting nearly 12 per cent earnings growth based on bottom-up estimates, and 14.5 per cent for next year.

Investors will therefore be looking with some keenness to the ECB's deliberations this week, and hoping for a better showing from bourses after a lacklustre week, espe cially given the sharp fall in

EURO	SPOT	FORW	ARD	AGAINS			Đ					
10 左		Closing mid-point	Change on day	Bid/offer spread	Day's I high	pid low	One mo Rate		Three and Rate	MPA MPA	Que year Rate	%PA
ernge						•			_			
zech Rep.	(Konsne)	37.8088		749 - 429	37.9950	37.7600	37.9885	-5.1	38.2763	-49	39.6949	-5.0
learne/k	(DK/r)	7.4345		317 - 373	7.4385	7.4315	7.4358	-0.2	7,4414	-0.4	7.4865	-0.4
ireece	(P)	321.75 1		513 - 989	322,200	321.429	323.5594	-6.7	327.0947	-6.6	340.5582	-5.9
etijary	(Ferint)	252,867	-0.6760		254.790	251,590	255,5657	-12.8	260.5783	-12.2	281.5109	-11.3
ionway	(AXI)	8.6904	-0.0156	834 · 973	8.7050	8.6526	8.7362	-4.9	8.7513	-4.2	8.9490	-3.0
dend	(759)	4.3307	+0.0230	242 - 371	4,3524	4.2838		-	•	-		
iprograig	(100)		-204,3600	020 - 636	-		•	-		•		
ussele e	(Rombie)	25.3636		096 - 175	25.5396	25.2077	•			-	•	
	(Korurai)	43.9243		583 - 903	44.0103	42.3345	•	-				
#90B(1	(SKI)	9.0148		072 - 223	9.0267	8.9727	9,0144	0.1	9.0184	-0.2	9.0363	-0.2
e izalend	(SF1)	1,5907	-0.0018	901 - 913	1.5920	1.5862	1,5875	24	1.5834	1.8	1.5651	1.5
K	50)		-0.0037	849 - 856	0.6893	Q.B947	0.6867	-25	0.6892	-23	0.7000	-2.1
mericas												
rgentina.	Pess	1.0974		971 - 976	1.1040	1.0951	-	-	-	-	-	-
kazil	(FIS)	2,2778	+0 0234	718 - 838	2.2972	2.2567		-	-			_ :
anade	(CS)	1.6571	-0.0050	561 - 58Q	1.6712	1.6546	1.5590	-2.0	1.6852	-20	1.6929	-22
lexico	Alone Peggi	10.9291	-0.0997	201 - 361	10.9744	10.8750	11.1811	-27.8	11,6229	-25.4	13.6771	-252
SA	, <u>,</u>	1.0978	-0.0073	975 - 980	1.1044	1,0955	1.0994	-1,7	1.1030	-1.9	1,1224	-2.2
	East/Atric	3										
والجرادي	(24)	1.7679	+8.0021	967 - E90	1.7950	1 7599	1.7703	-1.6	1.7752	-1.7	1 8014	-1.9
long Kang	1100	8.5051	-0.0584	029 - 073	8.548 9	0.5005	8.5250	-28	8.5695	-3.0	818929	-4.6
rdia	(Pag	46,8465		084 - 846	47.1579	46,6190	47.2201	-9.5	47 99 15	-9.8	51.8450	-10.7
dossia	Aupiati	9701,38	6.9300	800 - 475	9745.90	9588 <u>8</u> 0	9958.01	-31,7	10575.04	-36.0	13006.52	-34.1
rael	(SNA)	4.4415	-0.0339	351 - 478	4,4813	4,4305				-		
apan	m	130.24B	-2,4750	164 - 333	132,900	130.150	129,9190	3.0	129,2749	3.0	126.5058	29
isinysia.	(45)	41715		655 - 940	4.1965	4.1637		-		-	-	
ow Zeeland	(123)	20946		921 - 970	21112	20846	2.0970	-1.4	2.1022	-1.5	21325	-1.5
Hipp ha	(Parti)	42.7574		<i>8</i> 30 - 318	43.1820	42.5054	43.1418	-10.6	43.7952	-9.7	47.0319	-10.0
audi Arabia	(88)	4.1193		178 - 208	4 1448	4,1098	4.1355	-4.7	4.1633	-43	4.3035	-4.5
pullabous	(58)	1.8903		8 93 - 913	1.9025	1.8843	1.8901	0.1	1,8878	0.5	1.8930	-0.1
outh Akice	(FQ)	6.2006		935 - 076	6.8257	6 7695	6.8796	-13.9	6.9991	-11.7	7.5344	-10.8
outh Koree	(Word	1343.10		169 - 450	1352.89	1340.89			-			-4.7
(Angs	(19)	38.3136		504 - 767	36.5060	35.2000	36.5942	-9.3	38.8568	-5.0	38.0174 43.6858	-4.7 -6.5
hellend AF	(6) Dirhem	40.9681 4.0321		038 - 323 309 - 333	41.3519 4.3350	40.8498 4.02200	41.4152 4.0388	-13.7 -2.0	41.8258 4.0555	-8.4 -2.3	43,0030	-2.7

100_								Feb 25						
				Λ				Nethoral & Regional Markets	Euro Index	Day's %	change points	Yeld gross %	xdad∣ yad	Total ret (Euro) €
				Ι\.	۸ ۸			FTSE Gurotop 300	1222.63	-0.53	-6.48	218	1.33	1280.31
000_				$ldsymbol{L} ldsymbol{L} ldsymbol{I}$	TL	<u>~</u>	Λ	FTSE Eurotop 100	2804.45	-0.71	-20 02	219	4.56	1006.95
	A	i .		·		7	\mathbf{T}	FISE Ebloc 100	1006.77	-0.58	-5.87	1,98	0.60	1022.55
	M	1				V		FTSE Euroblid	1192.87	+0.34	+4.09	2.77	1.30	1237 40
		1						FTSE EuroMid Ebloc FTSE EuroMid & UK	1190.98 1231.01	-0.37 -0.25	-4.46 -3.10	2.32 2.17	1.40 0.96	1217.59 1254.79
900 🧸	/_	<u>~</u>	<u> </u>	_						-023	-3.10	211	U.30	1234,78
•	~					_		FTSE Eurotop 300 Region						
								Eurobioc	1258.35	-0.60	-7.51	1,95	1.00	1286.30
								UK Saataa Sa Saadabaa	1177.09	-0.36	-4.29	2.57	2.33	1238.42
800.		_						Europe Ex-Eurobioc Europe Ex-UK	1197.27 1249.35	-0.45 -0.61	-5.42 -7.71	2.47 1.98	1.67 0.77	1241.85 1273.53
	Nov		1998		n 99	Feb	_	FTSE Eurotep Industry Se	-	-0.01	-1.11	1.50	U.77	1273-33
ource: i	TSE International	ı						RESOURCES	856.13	+1.01	+8.55	3.36	0.94	896.26
								Mining Of & Ges	862.59 823.63	-0.57 +1.08	-4.93 +8.79	4.10 3.33	9.00 0.94	880.80 844 56
								BASIC INDUSTRIES	1071,24	+0.02	+0.25	2.78	0.86	1094.94
******						. 1 . 21								
Inter		OK FUTUR	es (need) (1m: 100 - nate				Chémicals	819.25	-0.02	-0.14	2.76	0.65	B33.37
	Open .	Sett price	Change	Hügin	Lover	Est. vol	Open Int.	Construction & Bld Matis	1005.97 876.61	+0.01	+0.12	2.30	1.13	1015.94
r	96,940	96.940	-0.005	96,945	96.920		•	Forestry & Paper		+0.44	+3.82	4 40	0.00	916.89
1	97,070	97.015	-0.055	97.070	96.990	28740 67326	158481 147044	GENERAL INDUSTRIALS	1105.09	-1,49	-16.71	1.99	2.39	1137.03
p	97.100	97.025	-0.065	97.100	96.995	83259	110130	Aemspace & Defence	746.10	4.46	-34 <i>.</i> 87	2.21	0.00	756.40
	96,790	96.740	-0.065	96,790	96,700	19585	87016	Olversified Industrials	968.04	-1.42	-13 95	2.10	0.00	990.19
THREE	MONTH EURO	LIBOR FU	TURBĖ (LEFA	9 €1m 100-n	ale			Electronic & Elect Equip	977.07	-1.30	-12.88	1.93	5.15	987.48
	Open							Engineering & Machinery	1017.06	-1.39	-14,29	1.85	1,65	1032.84
_	-	Sett price	Change	High	Low	Est. vol	Open int.	CYCLICAL COMS GOODS	1264,37	<u>-1.</u> 75	-22.55	2.48	0.00	1299.15
•	96.940 97.040	96.940 97.015	-0.005	96.940	98.935	147	119384	Automobiles	937.34	-1.84	-17.55	2.51	0.00	946.04
:	97.060	97.025	-0.055 -0.065	97.040 97.060	97.030	400	107376	Household Goods & Texts	1245.29	~1.29	-16.21	2.28	0.90	1255.\$3
	96.735	96.740	-0.065	96.755	97.035 96.735	227 508	93964	MON-CYC COMS 6000S	1226.01	-1,20	-14.88	1.50	0.49	1260.25
THRÆ	MONTH BURD					200	87072		938.83	+1.33	+12.28	2.90	0.00	959.10
	Brown I Dollo			3 ETIN 180-18				Beverages Food Producers & Process		-1.15	-10.73	1.72	0.00	935.42
í.e			US			PUTS -		Heelan	848.99	-0.58	-5.79	6.62	0.00	861.89
20	Mar	Jun	Sap i	Dec Mar	Jun	Sep	Dec	Packaging	777.22	-0.31	-2.38	1.16	0.00	778.19
175								Personal Care & Han Proofs	1068.88	-3.24	-35.74	0.91	0.00	1078.00
100	0.070 (1.155 (1.110 O.	185 0.055	0.130	0.370	0.300	Pharmaceuticals	1125.39	-1.44	-16.49	1.16	66.0	1132.21
125								Tobacco	1404.99	+0.80	+11.10	2.85	1.42	1433.19
5 0				105 0.250		0.570	0.470	CYCLICAL SERVICES	1345.55	+0.41	+5.54	2.28	3.17	1386.23
40 10	ei, Calls 743 Pais	5 151. Previ	ocs, day's ope	n Int., Casts 282	10018 Plats 18	0314		Distributors	708.94	-0.44	-3.16	4.16	0.00	716.90
LIZE E	100 to	MEX MIII		E20 per full s	ndex point			General Retailers	1105.41	-0.35	-3.85	2.87	1.06	1129.38
	Open	Sett price	Change	Hìgh	LOW	Est 1904	Open int.	Leigure Entertant & Hotels	957.83	-0.92	-8.87	2.14	6.02	977.75
r	2806.0	2817.0	-8.0	2826.0	2806.0	120	7447	Media & Photography	1251.44	+0.78	+9.72	1,83	0.71	1265.55
i		2821.0	-8.0	LOCUMO	20000	0	3	Rests, Auto & Breweres	850.72	+0.75	+6.30	3.31	254	878.39
			_			•	•	Support Services	1133.93	+0.20	+2.23	1.31	9 00	1145.96
EURO S	STYLE FISE BU	ROTOP 10	D INDEX OF	nom (AEX) €11	0 per Index	point		Transport MON-CYCLICAL SERVS	969.48 1398.75	+2.43	+23.02	2.58 1.35	0.44	989.20 1440.78
_										_				
	909 2650	2700		2800	2850	2900	2950	Food & Daug Retailers	1040.49	+0.22	+2.24	2.00	0.51	1056.89
C 281			P C 1 31 H23 4		C P 97 73	C P	C P	Teleconominacations Serva	1395.48	-0.46	-6.43	1.23	0.39	1416,70
322				1 127 55 2 173 98	967 73 1468 117	65 96 118 140	47 125 315 92	munes	1458.00	-0.72	-10.58	3.06	4.25	1550.72
voi zomi	t- Previdey's op	pen interest	EXEC 5,456 .	Premisons stow	en are bassed	an şetileme	t prices.	Electricity	1114,77	-0.79	-8.90	3.18	3.42	1153.93
								Gas Distribution	1202.66	-0.10	-1.21	1.59	1.00	1325.25
отн	ER INDI	UE6						Water	921.99	-1.57	_14.75	5.3B	5.94	971.60
.	ועדוו ווידו		-					FRIANCIALS	1278.19	-0.49	-6.24	2.62	2.01	1315.16
		Fab 26			98/99 Low	Since co		Benis .	899.07 057.21	-0.77	-7.01	3.36	243	914.33
				24 High		High	Low	Insurance	967.31 1142.09	-0.14 -0.16	-1.31	1.42	0.00 00.0	978.98 1156.92
Store 5	en .	1460 DE 11	H75.89 3547	.56 3670.82	2433.07	3670.82	2433.07	Life Assurance Investment Companies	989.44	-0.16 -1.82	-1.80 -18.39	1.75 1.80	0.00	1013.18
Sure Si			496.27 355E		2419.23	3685.36	2419.23	Real Estate	710.75	-1.62 +2.21	+15.35	3.45	1.67	730.96
caro se Ci Europ			212 <i>8</i> 4 1231		906.59	1315.55	510.78	Speciality & Other Fin	886.43	+0 50	+4.38	2.54	0.00	901.23
	ro gyyclaf Times Infi							INFORMATION TECK	935.23	-0.70	-6.62	0.66	0.D4	937.50
			•		`									
	٠.							Montanon Test: Hantware	987.17	-0.98	-9.79	9.73	0.00	989.52
-		0 E	1 2000			- 02-J		Software & Conspiler Serv	817.06	- €.10	+9.79	0.46	0.15	819 15

INTEREST	RA	TE S	SWA	PS							EURO-ZON	E BC	NDS						
Feb 26	Etero Bid		8 3 Bd	dg Ask	SwFr Bid		US :		Yes Bid	ı Ask							Day's	Min's	Sprd
na 20		Ask	ORE	ASK	DE	Ask	跗	Ask	700	ASK.	T-1 44	Red	C	S & P Ratino	Bid	Bid vield	chge	chge vád	y Govts
1 year	3.14	3.17	5.37	5.40	1.48	1,52	5.37	5.40	0.30	0.33	Feb. 26	CHARGE	Coupn	valuit	price	Assert	yid	Ser.	- SORG
2 year	3.24	3.28	5.30	5.33	1.70	1.78	5.58	5.61	0.42	0.45	■ SOVEREGIIŜ								
3 year	3.40	3.44	5.30	5.34	1.95	2.03	5.68	5.71	0.68	0.71	UK	01/01	4.250	AAA	107.794	3.26	+0.07	+0.28	+0.13
4 year 5 year	3.57 3.73	3.61 3.77	5.29 5.26	5.33 5.30	2.16 2.35	2.24 2.43	5.75 5.80	5.78 5.83	0.96 1.23	0.99 1.26	Denrark	01/02	4.750	AA+	103.638	3.38	+0.07	+0.31	+0.15
6 Acat	3.89	3.93	5.25	5.29	2.52	2.60	5.84	5.87	1.49	1.52	Sweden	02/01	5.000	AA+	103.156	3.28	+0.06	+0.28	+0.15 +0.83
7 year	4.03	4.07	5.24	5.28	2.69	277	5.88	591	1.71	1.74	Greece	11/06	6.750	BEB	114.204	4.52	+0.05	+0.32	+0.03
8 year	4.15	4.19	5.24	5.2B	2.B4	2.92	5.97	5.95	1.89	1.92	SUPRAMATION	us							
9 year	4.25	4.29	5.24	5.28	2.99	3.07	5.96	5.99	2.05	2.08	ADR	10/07	5.500	AAA	107.442	4.44	+0.05	+0.34	+0.63
10 year	4.33	4.37	5.24	5.28	3.13	3.21	5.99	6.02	218	2.21	BB	04/08	5.000	AAA	106.075	4,18	+0.05	+0.34	+0.25
12 year	4.48	4.52	5.25	5.30	3.36	3.46	6.07	6.10	2.40	2.44	Eurofina	12/09	5.625	AAA	108.568	4.60	+0.06	+0.37	+0.58
15 year	4.68	4.72	5.26	5.31	3.61	3.71	8.15	6.18	2.66	271	World Bank	04/05	7.125	AAA	117.255	3.89	+0.05	+0.28	+0.31
20 year	4.90	4.94	5.26	5.32	3.86	3.96	6.21	5.24	2.85	2.90									
25 year	5.03	5.07	5.26	5.33	3.97	4.07	6.21	6.24	294	2.99									
30 year	5.10	5.14	5.26	5.33	4.05	4.16	5.20	8.23	3.00	3.06	edf Tep co	10/03	3.750 4.750	n/a AA	100.676 103.017	3.59 3.92	+0.07 +0.07	+0.28 +0.31	+0.25 +0.58
Bud and ask rates a											Quebec Hydro	03/08	5.375	AA A+	104.678	4.73	+0.07	+0.35	+0.30
against 3 months Lib											Norsk Hydro	10/99	7.250	Ä	102.057	3.58	+0.00	+0.11	+0.59
Euro/Swise Franc qua of the 1 year rate with											-	10.33	1.250	^	الكراستان	220	TUJUP	79.11	10.00
Or the Libert term Aut	MI P U	men el	Sept 3			W.	Some	D. INSC	der b	rokers Ltd.	E FINANCIALS								
											Bad Wurtt	02/10	5.375	AAA	106.938	4.55	+0.09	+0.40	+0.47
Franchand .d.										J_21	OKE	09/07	5.750	AAA	110.669	4.23	+0.05	+0.32	+0.42
Euro bond yi	au c	TI AG			٠.		क अ	ainst	ग्रास्ट (Credit Local	04/08	5.250	AA+	105.458	4.51	+0,06	+0.37	+0.59
Per cent			•							S per €	Abbey Nati	01/09	5.000	AA-	101.290	4.83	+0.06	+0.37	+0.81
											II MOUSTRIALS								
5.0				_						_ 1.18	Unkerer	10/01	5 125	AAA	103.910	3.52	+0.08	+0.28	+0.39
_				=	٨						McDonalds	03/08	5.125	AA	104.792	4.47	+0.05	+0.72	+0.55
4.5					Α.						Philip Morns	06/08	5.625	A	184,254	5.04	+0.06	+0.39	+1.12
4.5	_	-/#		_	-₩	7.				_ 1.16	BAT Int Fin	07/05	5.375	A-	102.530	4.85	+0.04	+0.18	+1.26
	10				V	1					■ PFAMORRIEFE								
4.0	IJ-			_		—≒				_ 1.14	Rhein Hypo	12/01	5.500	n/a	105.515	3.35	+0.08	+0.20	+0.23
						N.					Eurohyoo AG	03/04	5,000	D/B	105.800	3.67	+0.09	+0.27	+0.21
3.5						'	٦.			1.12	Baver Vereins	07/06	6.000	n/a	111,907	3.99	+0.10	+0.35	+0.30
				_			—শ				Depta	07/08	4.750	n/a	103,518	4.28	+0.11	+0.34	+0.36
3.0	_	— Feb	26 199	39			١.			4	M HIGH VIELD	•				_		•	
3.0 4		→ Wea	ak ago	-				∿ —		_ 1.10	Geberk	(14/07	40 105	8-	-63 55-				4.00
			-								Cost Telecom ·	11/07	10.125 8.875	n/a	107.881 106.701	8.63 7.60	+0.08 -0.13	+0.67 -0.89	+4.82 +3.99
25 <u></u>		- 1		<u> </u>						1.08	Imonest Metal	05/07	9.875	B	101.350	9.63	-0.13 -0.10	+1.90	+5.82
1 3 5 7 10	15	20		30	Jar	1	1999		Mar		Remy Cointreau	07/05	10,000	B+	97.000	10.65	+0.22	-0.91	+7.07
Source: interactive Da	Yea		R								Standard & Poor's rating			<u></u> -	21 200		Meracivo		

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																		Sancting Scheding Seriel Schen	160.30 196.91 12.87	-72 -8 -1	17.3 8.0 72.0	8.1	
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	663.50	-0.5	184	.:	1.3	Throad	237.50	-38	18.8	85	1.0	LT. HARDWA	RE										
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MeritaNordbanken

Report on 1998 operations in summary

- Operating profit was up 13 per cent at FIM 8.145 million (SEK 12,083 million). Excluding items affecting comparability, operating profit rose by 16 per cent to FIM 6,889 million
- Return on equity, excluding items affecting comparability, was 18.7 per cent
- Return on equity, after real estate write-downs of FIM 3,670 million, was 14.3 per cent.
- After-tax profit for the year amounted to FIM 4,178 million
- Earnings per share were FIM 1.96 in Merita Plc, SEK 2.92 in Nordbanken Holding
- Proposed dividend: FIM 1.05 per share for Merita PIc, SEK 1.64 per share for Nordbanken Holding

MeritaNordbanken in brief

MeritaNordbanken is one of the leading Nordic bank groups, with a broad range of financial products and services.

The customer base comprises 6.5 million individuals and 400,000 companies and institutions. Customers in Sweden and Finland are offered services via 800 bank offices, some 1,000 Swedish post offices and through effective telephone bank and Internet services. Approximately one million

customers use the group's electronic banking services. The Group manages some FIM 250 bn, or about EUR 42 bn. on behalf of private customers. In addition to the Nordic office network, the group is represented in 19 countries. The Group has more than 19,000 employees, of whom some 18,000 are employed in actual banking operations.

MeritaNordbanken's total market capitalization at year-end amounted to EUR 11.5 bn.

The complete Report can be ordered from MeritaNordbanken, Investor Relations. SE-105 71 Stockholm, telephone +46-8-614 78 51, telefax +46-8-614 87 10 от e-mail: investor.relations@nb.se Internet: www.meritanordbanken.com

Merita-Nordbanken

Notice of Reduced Interest Payment Date Republic of Ecuador PDI Bonds due 2015

25 12 63 44 18 47 53 06 48 64 18 53

Pursuant to the terms of the PDI Bonds, the Republic of Ecuador has elected to capitalize a portion of the interest payable for the Interest Period from February 26, 1999 to August 31, 1999, Therefore, August 31, 1999 will be a Reduced interest Payment Date. By: The Chapp Manbathan Book **O**CHASE

U.S. \$1,434,690,000 Republic of Ecuador Discount Bonds due 2025 For the six months February 26, 1969 to August 31, 1999 the Bonds will bear interest at 6% per annum. The interest payable on the relevant interest payment date, August 31, 1999 will be U.S. \$31.00 per U.S. \$1,000 Bond.

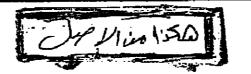
By: The Chase Manhattan Bank **O**CHASE O

The Chase Manhattan Corporation

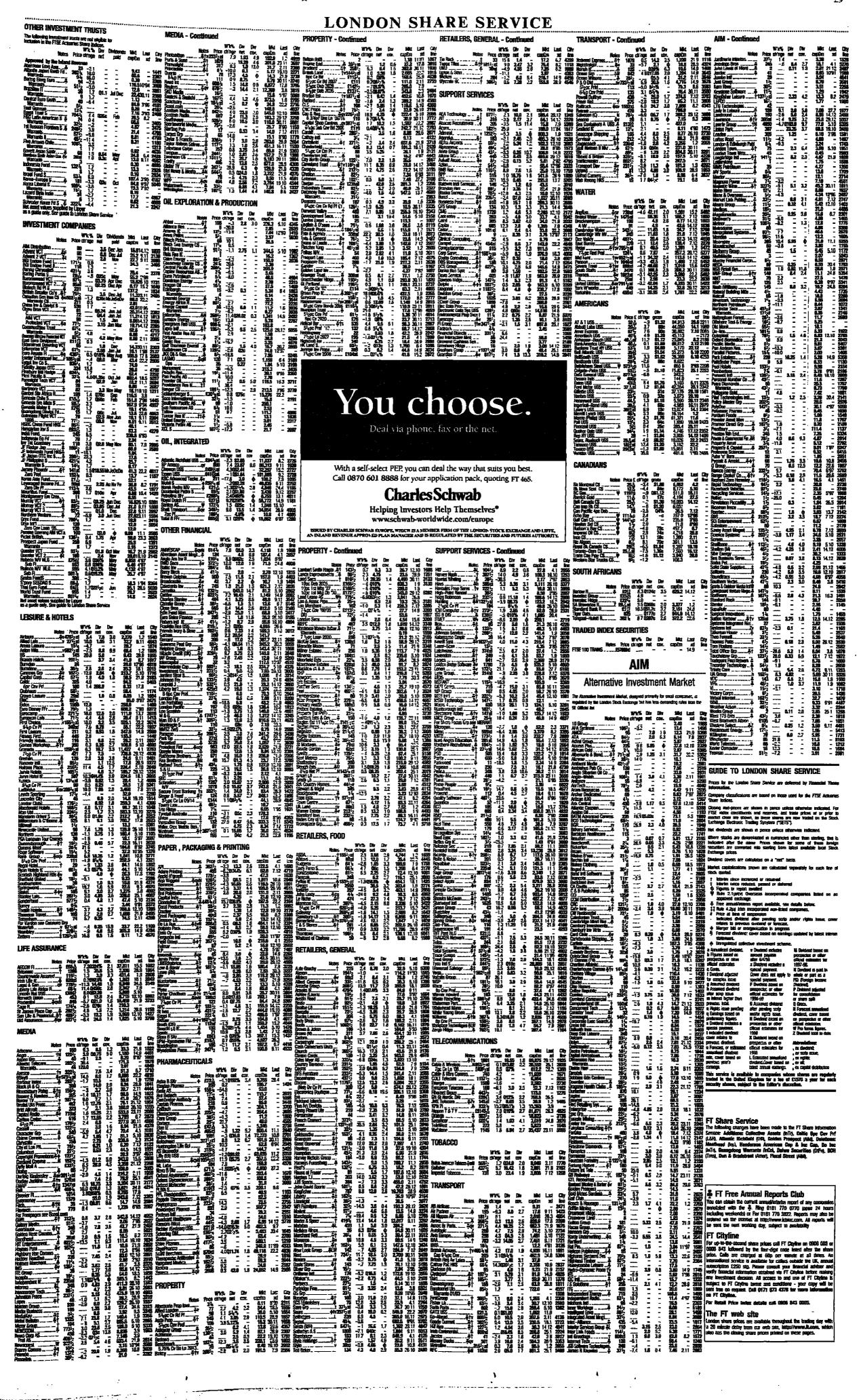
U.S. \$250,000,000 Floating Rate Subordinated Notes due 2000 For the three months 26th February, 1999 to 28th May, 1999 the Notes will carry an interest rate of 5.125% per annum with a coupon amount of U.S. \$129.55 per U.S. \$10,000 principal amount, payable on 28th May, 1999.

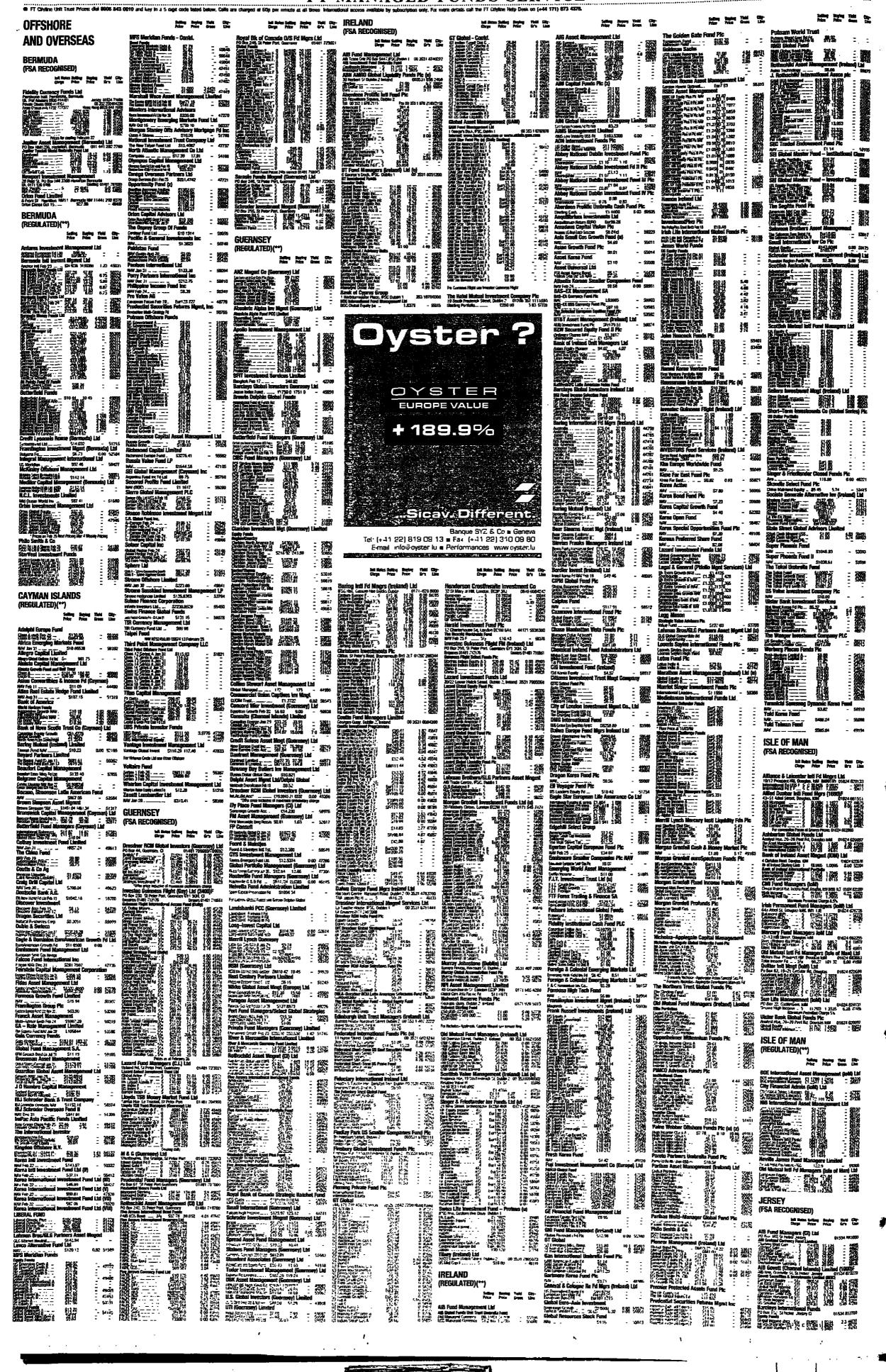
Bankers Trust Company, London

Agent Bank









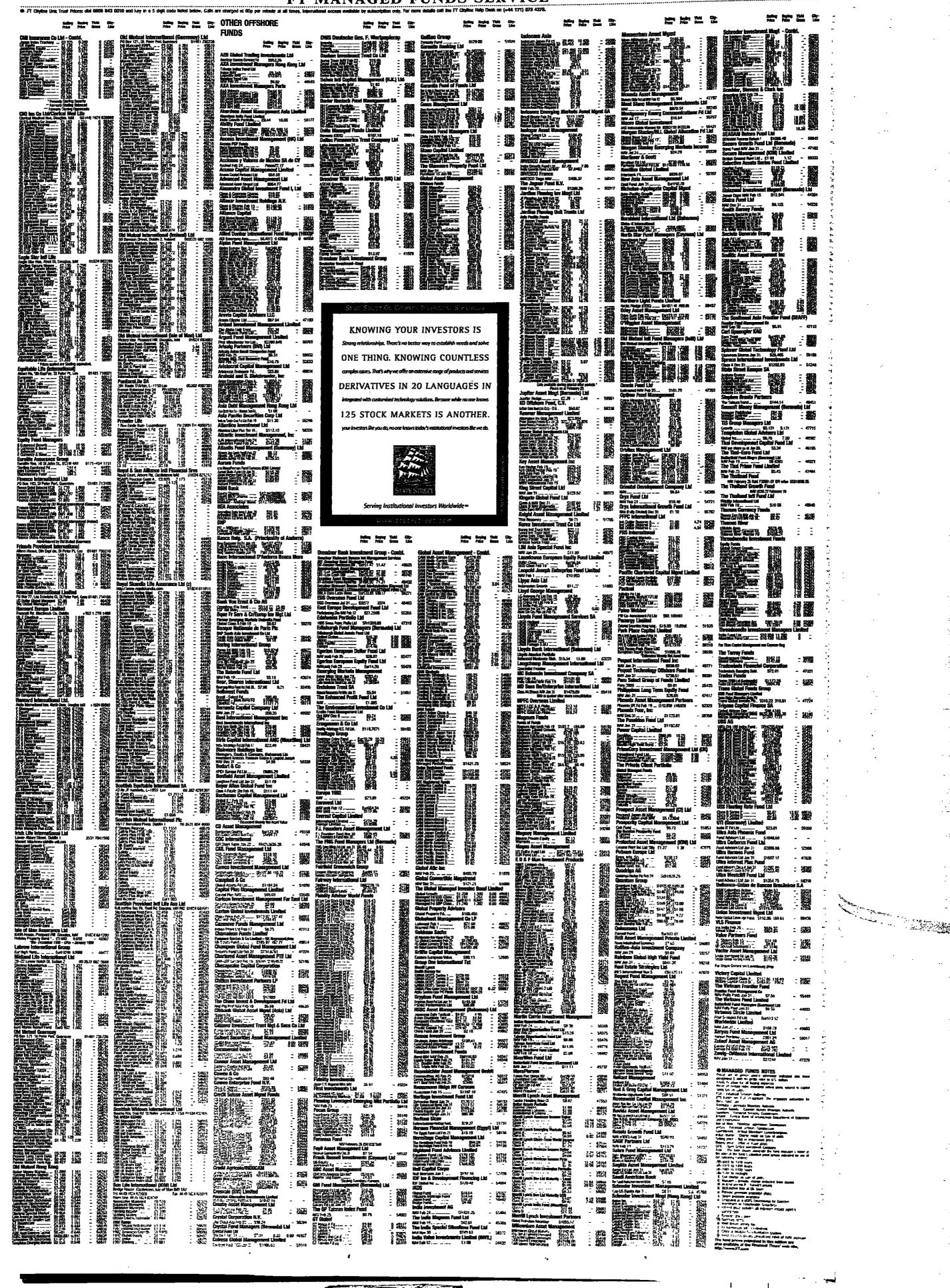
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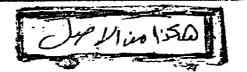
Offshore Funds and Insurances

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如此,也是是我们的人,我们也是我们的人,我们就是我们的人,我们就是我们的人,我们就是我们的人,我们就是我们的人,我们也会是我们的人,我们就是我们的人,我们就是我 第二章

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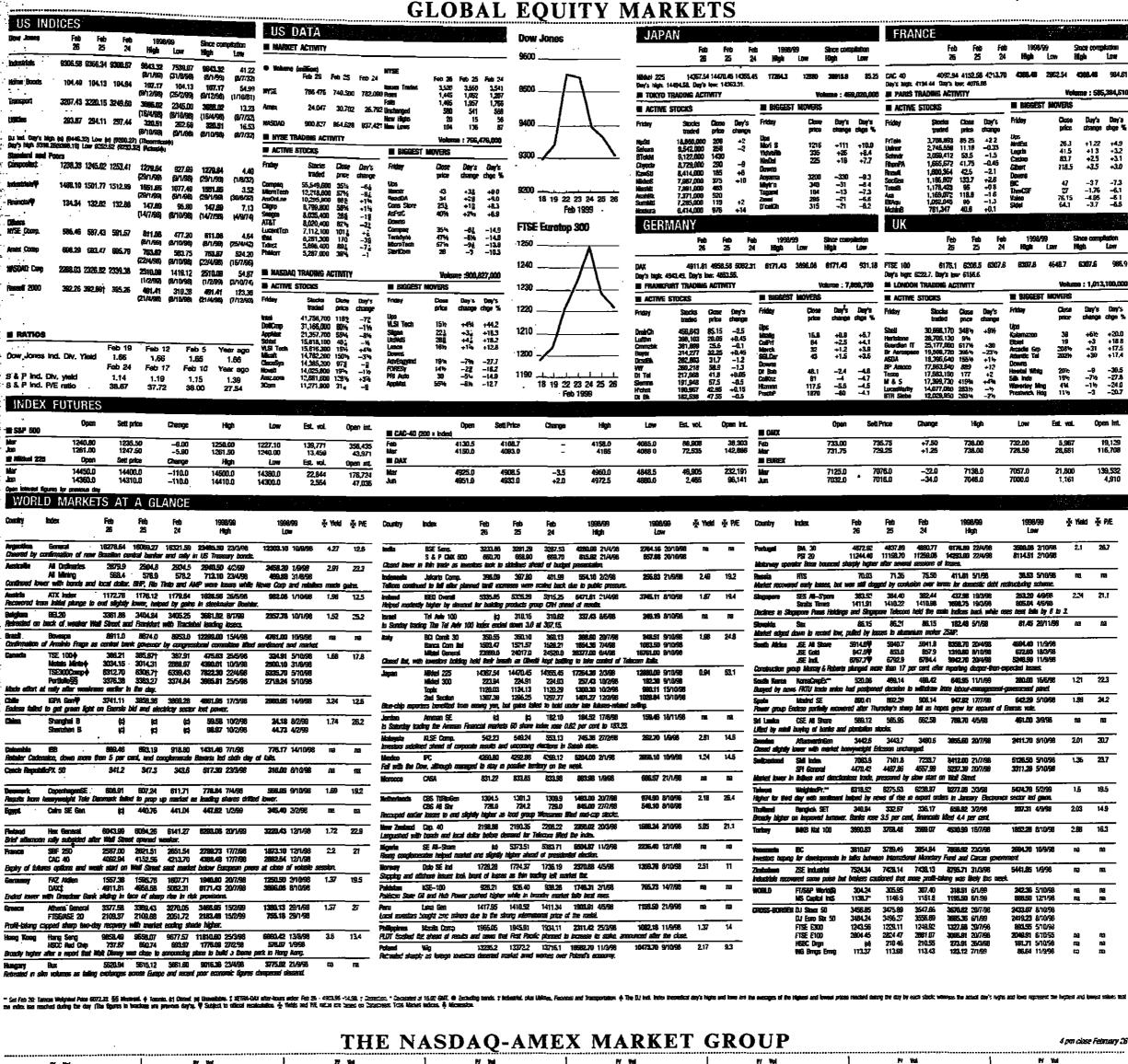
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FT GUIDE TO THE WEEK

MONDAY 1

Albright's tours

Madeleine Albright, US secretary of state, arrives in Beijing to begin a visit to China, Indonesia and Thailand to affirm continued US strategic commitments to Asia and discuss issues such as the Asian financial crisis, progress towards free elections in Indonesia and the future of East Timor. Albright will meet senior Chinese officials today and Tuesday to expand a strategic dialogue with China and discuss an expected visit to the US by Zhu Rongji, the Chinese premier, early this year.

No more mines

The Ottawa landmines convention comes into force today. The convention, adopted in December 1997 and signed by more than 130 countries, bans use, production, stockpiling and transfer of anti-personnel mines. Countries that ratify the treaty, 55 so far, are committed to destroying stockpiles within four years and eliminating laid mines within 10 years. But the US, Russia, China and India, all big mine producers, have not signed the pact. About 60m-70m mines lie scattered around the world, killing or maiming 26,000 people every year.

Socialist platform

The European Socialist party meets in Milan for a two-day congress to decide its platform for the June European Parliament elections. Tony Blair, the British prime minister, Lionel Jospin, the French prime minister, Chancellor Gerhard Schröder of Germany and Swedish prime minister Goran Persson are among those expected to attend.

Money talks

Financial experts including James D. Wolfensohn of the World Bank, Stanley Fischer of the International Monetary Fund, and Kiichi Miyazawa, Japan's foreign minister, gather in Tokyo at a two-day symposium on global finance and development. Amartya Sen, 1998 Nobel prize winner in Economics, will deliver a keynote speech.

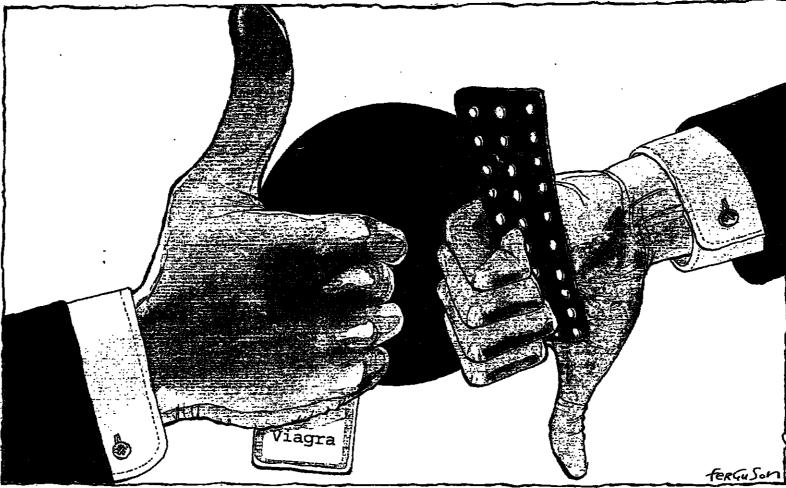
Developing states

Heads of state from the D-8 (developing eight) group of countries are scheduled to meet in Dacca, Bangladesh. The eight are Bangladesh. Egypt, Malaysia, Nigeria, Pakistan, Turkey, Indonesia and Iran.

All at sea

The International Maritime Organisation and the United Nations Conference on Trade and Development host a





Japan, which took just six months to license the impotence drug Vlagra, will on Wednesday consider approving the female contraceptive pill after 30 years' deliberal

two-week conference in Geneva intended to adopt an international convention on the arrest of ships. The draft treaty sets out the conditions under which ships can be arrested as security for a maritime claim, as well as legal safeguards against abuse.

FT Survey Automotive industry.

Holidays

Sri Lanka, Thailand, South Korea, Paraguay.

TUESDAY 2

Trade dispute ripens

The dispute settlement body of the World Trade Organisation in Geneva is due to establish a panel to examine the controversial Section 301 of US trade law, used by Washington to threaten sanctions against the European Union in their dispute over bananas. Brussels claims that Section 301 contravenes WTO principles prohibiting unilateral trade actions, but the US says its sanctions procedures comply fully with WTO rules.

Ready reactor

1 Music-masters? (7)

5 Musical journal? (5)

2 Showing the flag? (9) 3 Pacific Islands have got an unusual constitution (5)

4 They go from equator to poles in ever-decreasing circles (9)

5 Musical journal? (5)
6 Then, sadly, two little boys
got raised aloft (9)
7 Looking at money in goverament stocks (5)
8 View from the flats (7)
14 Charles Edward is in hiding, beaten (9)
16 Way home from the inn (9)

Chemobyl nuclear power plant in Ukraine could reopen from today,

according to officials in Kiev. Ukrainian officials are holding talks in Kiev with the European Bank for Reconstruction and Development about financing the construction of two new reactors at the Khmelnytsky and the Rovno plants so that Chemobyl can be closed

Holidays

permanently.

Ethiopia, Israel, India.

WEDNESDAY 3

Getting on the pill The central pharmaceutical affairs

committee of Japan's ministry of health and welfare is expected to recommend at a meeting today that the contraceptive pill be licensed. The debate about the female pill has intensified since the ministry approved Viagra, the male impotence pill, in January after just six months' deliberation. The high-dose contraceptive pill has been waiting for approval for 30 years and the low-dose pill for about nine years.

Sanctions demand

The disoute settlement body of the Geneva-based World Trade Organisation meets for the second me in two days. It will discu demand for authorisation to impose trade sanctions on the European Union I also review the impasse between the

in their banana battle. The US claims that under WTO procedures it must be given authorisation to go ahead with sanctions, whose size and direction will be based on an arbitration decision due on March 2. Brussels says the US must wait for a WTO ruling in April on the EU's amended banana import

Commission code

A new code of conduct for European commissioners is unveiled. The code is part of a reform programme introduced by Jacques Santer, Commission president, following protests by the European Parliament at the way it has managed funds.

FT Survey Review of Information Technology.

Holidays

Israel, Malawi, Morocco, Bulgaria.

THURSDAY 4

Caricom concerns

Leaders of the 15 countries of the Caribbean Community (Caricom) meet in Suriname for two days to discuss the impact on the region of the nancial problems of south-e Russia and Latin America. They will

most venerable of the UN agencies, the ILO has been criticised for not rising effectively to the challenges of globalisation. Mr Somavia will be under pressure from donor governments to revamp and energise the organisation, which aims to improve the conditions of working people. Nordic co-operation Foreign ministers from around the

come from a developing country. The

Barents Sea area - the Nordic nations and Russia - meet in Bodoe, Norway, to discuss closer co-operation (to March 5).

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FT Survey Wales.

FRIDAY 5

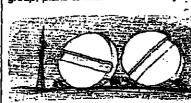
Saints march in

Pope John Paul II is expected to announce the crea ion of new saints. . . . The current pontiff, who has canonized; some 270 people and beatified nearly ; 800, has created more saints than any : other pope in history.

SATURDAY 6

Great relief

Bayer, the German pharmaceuticals group, plans to mark the centenary of-



its introduction of aspirin by dressing its 122m high communications tower in. Leverkusen as a giant packet of the pain-killing drug.

Holidays

Ghana.

II-sung.

US and the European Union over trade

in bananas - a big export for several

Caricom states. The leaders are also

anxious to establish a regional appeal

court to replace the UK Privy Council

as the final appellate court for several countries. They feel that some Privy

Council rulings are hampening their

Anguilla election

plans to retain capital punishment for murder.

A plan by a Texas company to build a

issue in a general election in Anguilla in the eastern Caribbean, one of Britain's smallest possessions. The 10,000

people of the territory are divided

damage to the environment. The

between the promise of millions of

dollars from the launch pad and likely

launch pad on Sombrero Island will be

used for commercial satellites, says

about a new UK policy towards its

overseas territories. Hubert Hughes

Beal Industries. There is concern also

the chief minister, said the UK had not

Juan Somavia of Chile takes over from

director-general of the Geneva-based

International Labour Organisation. Mr

ambassador to the United Nations in

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New York, is the first ILO chief to

Belgium's Michel Hansenne as

Somavia, previously Chii

consulted the colonies on the plans,

which could affect offshore banking

and citizenship rights.

New ILO chief

rocket launch pad on an islet is a key

SUNDAY 7

North Korean poll North Korea holds nation-wide local elections, the first such polls since the death in 1994 of "Great Leader" Kim

Salvadorian choice El Salvador holds presidential elections; a second round will be held

Motor racing

on April 25 if needed.

The Australian Grand Prix, first round of the world Formula One championship, is held in Melbourne.

Compiled by Roger Beale Fax 44 171 873 3196

ECONOMIC DIARY

Other economic news

Monday: US personal income growth is thought to have remained healthy in January, although consumer spending growth probably slowed a little. Exports to the US are likely to have buoyed Canadian economic growth in the fourth quarter. Tuesday: The US purchasing managers index is thought to have continued the recovery that began in January, while new home sales are forecast to have moderated. Japanese unemployment is thought to have been stable in January. Wednesday: The UK purchasing managers' index for services is expected to show the pace of growth in the sector slowing. Thursday: Growth in US factory orders in predicted to have slowed in January. The European central bank is not expected to change interest rates. There is a risk of substantial revisions to fourth quarter data showing the German economy shrinking 0.4 per cent. Friday: US non-farm payrolls are forecast to have shown a smaller increase last month than in January keeping the unemployment

1 Rise to show appreciation

5 Cover removers in action at

9 Mischievous student in fine form (5) 10 The opportune moment – watch for it (5,4) 11 Sailor-saint in waterproof material (9) 12 Knave withdrawa (5,4)

material (9)

12 Knave withdrawn from the pack? (5)

13 Feeling frail, I accept it's partly to do with the hip

15 He has a short-service com-

27 Drug found at college - put one's foot down (5.2) 28 See it as the simplest form

15 He has a short-service commission (6.3)
18 This is something between Greece and Turkey (6.3)
19 Ventured again to take father out (5)
21 Just as normal as rain (5)
23 Foe had run into unprecedented difficulty (7-2)
25 Not a single female will wear this outfit (9)
26 Studies English with little intelligence (5)
27 Drug found at college – put

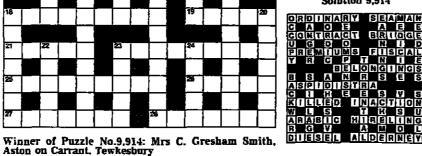
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Released	Country	Statistic	Forecast	Actual	Released	Country	Statistic	Forecast	Actual
Mon	Australia	Jan balance on goods & services	-A\$825m	-A\$508m	Thurs	Japan	Jan overall personal consumer spend	2.0%	-0.6%
Mar 1	Korea	Feb trade balance customs cleared		\$695m	Mar 4	Germany	Q4 GDP pan-Germany** (stats off)	2.6%	2.8%
	Japan	Feb car sales**		-6.2%		Sweden	Jan trade balance NSA	SKr11bn	SKr12.7bn
	Germany	Jan import prices	-5.8%	-6.0%		Emu	GDP provisional***	0.1%	0.7%
	Japan	Feb foreign exchange reserves*		2.9%		Emu	GDP provisional**	2.2%	2.7%
	Italy	1996 GDP	1.4%	1.5%		Emu	Jan unemployment rate	10.8%	10.8%
	ltaly	1998 deficit/GDP	2.7%	2.7%		US	Jan factory orders	2.2%	2.3%
_	UK	Jan consumer credit	£1bn	£700m		us	Jan factory inventories		-0.9%
	US	Jan personal income	0.4%	0.5%		US	M2-week ended Feb 22	\$12bn	\$13.5bn
	υs	Jan construction spending	0.5%	1.7%		Japan	Feb overall wholesale price index*	0%	-0.9%
Tues	Australia	O4 current account balance	-A\$7.7bn	-A\$7.3bn		Japan	Feb overall wholesale price index**	-4.0%	-4.9%
Mar 2	Australia	O4 current account balance % GDP	5.1%	4.7%	Fri	US	Feb non-farm payrolls	250,000	245,000
	Japan	Jan unemployment rate	4.3%	4.3%	Mar 5	US	Feb manufacturing payrolls	-5.000	-13,000
	France	Jan producer price index*	0.1%	-0.4%		US	Feb hourly earnings	0.3%	0.5%
	France	Jan producer price index**		-2.6%		US	Feb average working week	34.5	34.5
	Italy	Dec retail sales**	3.5%	4,0%		US	Feb unemployment rate	4.3%	4.3%
	UK	Feb official reserves		-\$3m		US	Jan consumer credit	\$5bn	\$7.3bn
	Emu	Jan harmonised consumer price Index*	0%	0%	During t	he week	·		
	Emu	Jan harmonised CPI**	0.9%	0.8%		N'lands	Dec trade balance		G1.7bn
	บธ	BTM-Schroders Feb 27		2.2%		Brazil	Feb trade balance	-\$300m	-\$754m
	US	Jan leading indicators	0.3%	0.3%		Germany	Jan capital account final		-DM36.5bn
	US	Redbook Feb 27		1.8%		Germany	Jan foreign security purchases		DM13.1bn
Weds	UK	'Feb CBI distributive trades		-9		Japan	Feb trade balance (1st 20 days NSA)	Y612bn
Mar 3	Canada	Feb foreign reserves	C\$100m	C\$18m		UK	Feb BRC shop prices**		0.4%
	บร	Feb NAPM (non-manufacturing)		54%	"month on mo	untin, "year on	year, ""quarter on quarter Statistics	, courtesy Standar	& Poor's MMS

No.9,926 Set by DANTE

Solution 9.914



MONDAY PRIZE CROSSWORD

A prize of a Tombow Lucca fountain pen and rollerball set, worth £125, will be awarded for the first correct solution opened. Solutions by Thursday March 11, marked Monday Crossword 9,326 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday March 15. Please allow 28 days for delivery of prizes.



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JOTTER PAD